TELEPHONE REPORT

to the

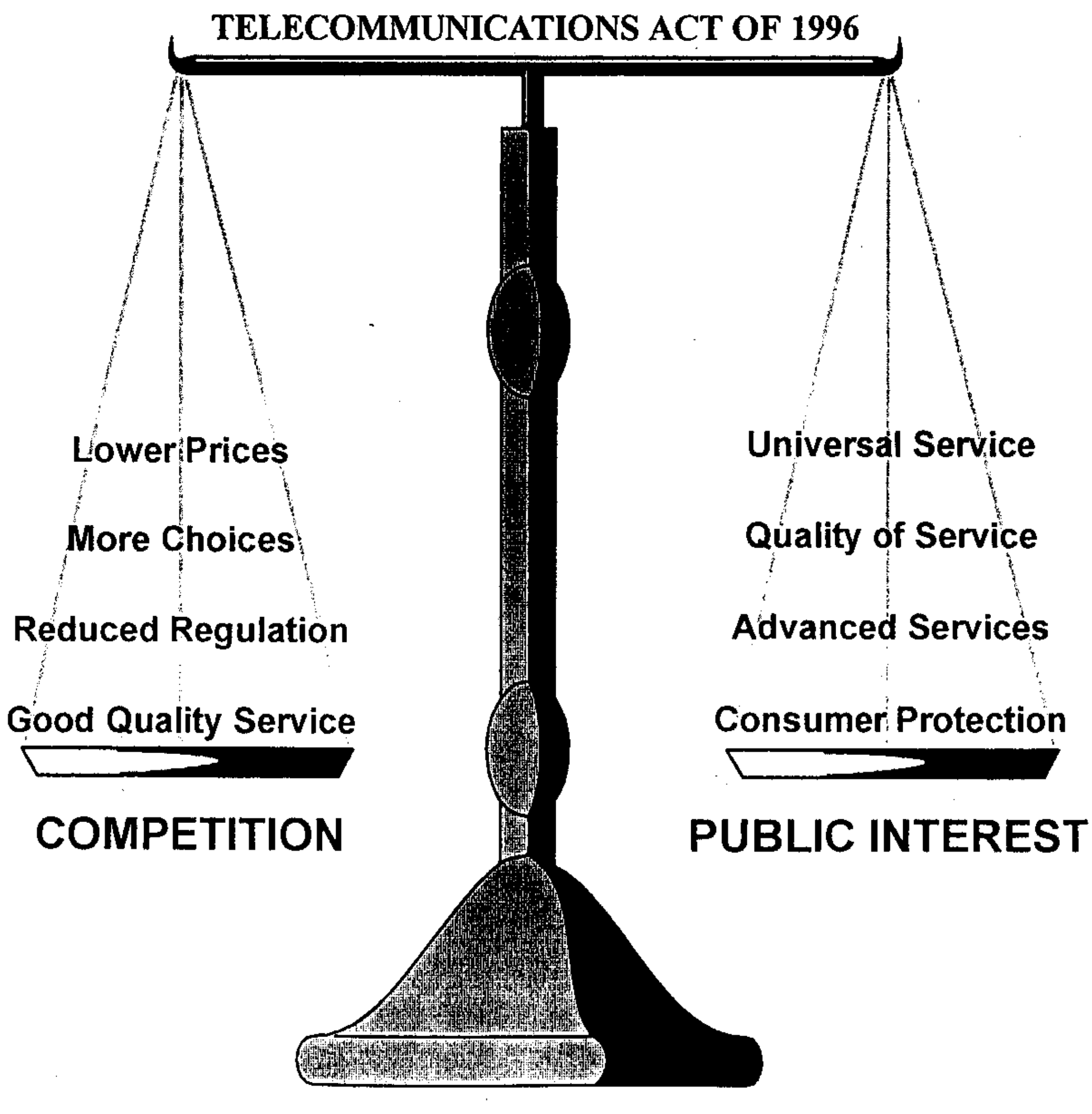
REGULATORY FLEXIBILITY COMMITTEE

OF THE INDIANA GENERAL ASSEMBLY

by the

INDIANA UTILITY REGULATORY COMMISSION

JULY 1, 1996



STATE of INDIANA
INDIANAPOLIS, 46204
INDIANA UTILITY REGULATORY COMMISSION
302 W. WASHINGTON STREET, ROOM E306

July 1, 1996

Honorable Jack Lutz
Co-Chairman
Regulatory Flexibility Committee
Indiana House of Representatives
3rd Floor, State House
Indianapolis, IN 46204

The Honorable Morris Mills
Co-Chairman
Regulatory Flexibility Committee
Indiana State House
3rd Floor, State House
Indianapolis, IN 46204

Gentlemen:

Enclosed please find the report to the Regulatory Flexibility Committee of the Indiana General Assembly that the Commission has prepared pursuant to the "Competition in the Provision of Telephone Services Act."

This has been a momentous year in the world of telecommunications due to the passage of the Telecommunications Act of 1996, which will introduce competition at all levels of the industry. The United States Congress has given the Indiana Utility Regulatory Commission, along with the commissions of the other 49 states and the Federal Communications Commission (FCC), considerable responsibility to implement the Telecommunications Act.

We commenced our own "investigation of local telephone exchange competition" more than a year prior to the passage of the Telecommunications Act. Because of the large amount of work done in that investigation by the many parties, the Commission, and its staff, we are better prepared to implement the new Act. As you are aware, the IURC has limited resources to perform the extensive duties bestowed on us by the Act and its short timelines. Consequently, we have restructured the Commission's staff to more efficiently address these new requirements.

The new federal legislation carries a threat of preemption by the FCC for states not meeting the timelines of the Act. The Commission and its staff are committed to achieving the goals and objectives of the Telecommunications Act of 1996, so we can continue to make decisions in Indiana for Hoosiers!

We look forward to working with you and members of your committee as the restructuring of the telecommunications industry proceeds. Thank you for your continued cooperation and consideration.

Sincerely,

John F. Mortell

John F. Mortell
Chairman

JFM/jac

cc: Members of the Regulatory Flexibility Committee
Governor Evan Bayh
Miriam Dant, Executive Assistant to the Governor
Commissioners Huffman, Klein and Ziegner
Robert C. Glazier, Director of Utilities

REPORT

to the

REGULATORY FLEXIBILITY COMMITTEE

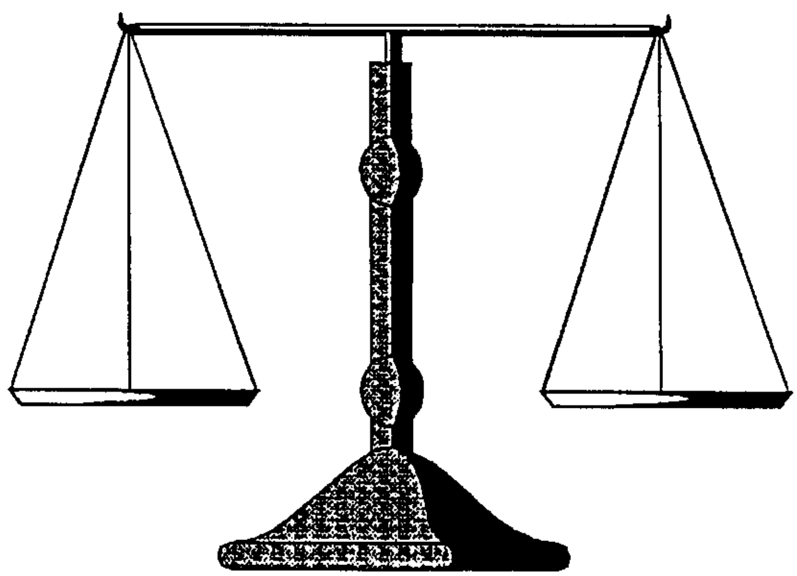
of the

INDIANA GENERAL ASSEMBLY

As required by IC 8-1-2.6-4(c)

An analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the Indiana Utility Regulatory Commission.

JULY 1, 1996



Submitted by the Indiana Utility Regulatory Commission

John F. Mortell, Chairman

Mary Jo Huffman, Commissioner

G. Richard Klein, Commissioner

David E. Ziegner, Commissioner

TABLE OF CONTENTS

I. INTRODUCTION

A. PURPOSE OF THE REPORT

1. Legislative Mandate

This report to the Regulatory Flexibility Committee of the Indiana General Assembly is mandated by the provisions of P. L. 55-1992, § 1, currently codified as Ind. Code 8-1-2.6-4(c), which specify that:

> The commission shall, by July 1, 1993, and each year thereafter, prepare for presentation to the regulatory flexibility committee an analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the commission.[1]

Ind. Code 8-1-2.6-4(c).

The Regulatory Flexibility Committee of the Indiana General Assembly is also required under the provisions of Ind. Code 8-1-2.6-4(d) to "... also issue a report and recommendations to the legislative council by November 1, each year that is based on a review of the following issues:

(1) The effects of competition in the telephone industry and impact of competition on available subsidies used to maintain universal service.
(2) The status of modernization of the public telephone network in Indiana and the incentives required to further enhance this infrastructure.
(3) The effects on economic development and educational opportunities of this modernization.
(4) The current method of regulating telephone companies and the method's effectiveness.
(5) The economic and social effectiveness of current telephone service pricing.

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[1] Senate Enrolled Act No. 222, § 1.

(6) All other telecommunications issues the committee deems appropriate."

Ind. Code 8-1-2.6-4(d).

2. Scope of Report

The Telecommunications Act of 1996 (TA-96), signed into law on February 8, 1996, will completely change the landscape of the telecommunications industry. This congressional initiative has set in motion a series of events involving all industry participants, the Federal Communications Commission (FCC) and all fifty state utility commissions, that will introduce competition into all facets of the industry. Thus, the Indiana Utility Regulatory Commission's (IURC) 1996 report focuses on the Commission's efforts to carry out the goals and objectives of the TA-96.

The report also contains the results of the second year of Ameritech Indiana's alternative regulation plan referred to as "Opportunity Indiana" and an update of the telecommunications industry statistics contained in the three previous reports submitted by the Commission.

II. SUMMARY AND CONCLUSIONS

Key Provisions of the "Telecommunications Act of 1996"

The "Telecommunications Act of 1996" affects nearly all areas of intrastate telecommunications services either directly through actions required of the states or indirectly through rulemakings required of the Federal Communications Commission (FCC). The major areas addressed in the report are listed as follows:

Interconnection (Section 251)

The law establishes broad requirements that must be included in interconnection agreements, and the FCC must promulgate all rules necessary to implement these requirements by August of 1996. The law establishes different interconnection responsibilities based on a carrier's classification as an incumbent Local Exchange Company (LEC), an alternative (ALEC) or a telecommunications carrier. States may continue to enforce all regulations relating to interconnection and other local competition issues as long as such rules are not inconsistent with federal requirements. In addition, the state commissions must rule on any requests for modifications of and exemptions from the interconnection requirements filed by incumbent small LECs.

Negotiation, Mediation, Arbitration, and Approval of Agreements (Section 252)

The law establishes procedures for the negotiation, mediation, arbitration and approval of interconnection agreements, and state commissions are the primary agents of mediation, arbitration and approval of interconnection agreements. All interconnection agreements must be submitted to the state commissions for approval. States may continue to require additional obligations, such as minimum service standards, consistent with Section 253.

Removal of Barriers to Entry (Section 253)

State and local regulations/statutes that prohibit or have the effect of prohibiting any entity from providing interstate/intrastate telecommunications services are not permitted under the law. However, States retain the authority to enforce rules that protect the interest of consumers and ensure quality services. After notice and opportunity to comment, the FCC must preempt any state or local policy that violates Section 253.

Universal Service (Section 254 & Section 214(e))

A fundamental goal of the law is the advancement and preservation of universal service. The law outlines several principles upon which the Federal/State Joint Board should base its recommendations for the definition of universal service and the revisions to the federal universal service mechanism. The FCC may expand the definition of universal service for schools, libraries and rural health care providers. States must establish discounts for services (that are included in the definition of universal service) provided to schools and libraries, and carriers are entitled to reimbursement from the appropriate universal service fund equal to the amount of the discount. States must establish intrastate universal service mechanisms and may require additional universal service requirements provided such regulations are not inconsistent with the federal policies.

RBOC Entry into InterLATA Services (Section 271)

The law allows Regional Bell Operating Companies (RBOCs) to enter out-of-region interLATA[2] and incidental interLATA services upon enactment and to enter in-region interLATA services after receiving authority from the FCC. To obtain in-region interLATA

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[2] Local Access and Transport Area (LATA).

authority from the FCC, the RBOC must enter into at least one agreement for interconnection with a facilities-based provider that provides service predominantly over its own network and must meet the 14-point competitive checklist. The interconnection agreement(s) must be approved by the state commission. The FCC shall consult with the State Commission of any state that is the subject of the application for in-region interLATA relief to verify compliance with the requirements of Section 271(c).

In order to respond to the requirements and timelines imposed by TA-96, the Commission formed the Telecommunications Work Group within the IURC staff. The group is responsible for the implementation of all aspects of the TA-96. The IURC staff has submitted comments to the FCC on two matters initiated because of the TA-96: Universal Service and Local Competition (Interconnection). The Commission took action in several ways in its Local Exchange Competition case which also involves implementation of TA-96.

Changes to Indiana telecommunications laws may be necessary to accommodate the implementation of TA-96; however, as we have not finished our analysis of possible conflicts state law may have with TA-96, we are not prepared to make recommendations at this time.

Local Exchange Competition

The Commission continued its investigation of competition within the local exchange areas of Indiana which had commenced prior to enactment of the TA-96. The Final Report of the Executive Committee was filed with the Commission on January 16, 1996. A public hearing on the issues pertaining to the resale of local exchange service was held February 12 - 16, 1996. An Interim Procedural Order establishing the procedures for interconnection agreements, requests for mediation or arbitration, and petitions for exemption, modification or suspension from incumbent rural telephone companies under the TA-96 was issued June 5, 1996. A "resale" order that establishes certain conditions necessary to allow the resale of local exchange services by alternative local exchange carriers (ALECs) was issued July 1, 1996. A July public hearing on issues relating to facilities-based competition and the unbundling of local exchange facilities was scheduled for July 15 - 18, 1996. Also, during the past year, the Commission approved the request by MCI for a trial permitting the resale of certain local exchange services.

Universal Service

As of the February 1996 "Telephone Subscribership in the United States" report issued by the FCC, Indiana's Annual Average Percentage of Households with Telephone Services was 94.4%, based upon data collected through November, 1995. This compares to the 1994 Annual Average of 93.6%.

On July 20, 1995, the FCC released a Notice of Proposed Rulemaking on Subscribership and requested comments on several proposals and tentative conclusions concerning certain local and toll service disconnection policies, penetration rates, and telephone assistance programs. On September 27, 1995, the IURC filed comments in this docket. As of the date of this report, the FCC had not issued an order in the Subscribership docket.

There are three existing programs in Indiana that may increase the availability or the affordability, or both, of telephone service: 1) Link-Up Indiana, 2) the Indiana High Cost Fund (IHCF), and 3) the federal Universal Service Fund (USF).

On March 8, 1996, the FCC adopted a Notice establishing a Federal-State Joint Board and requesting comment to (1) define the services that will be supported by Federal universal service support mechanisms; (2) define those support mechanisms; and (3) otherwise recommend changes to the [FCC's] regulations to implement the universal service directives of the TA-96. On April 11, 1996, the IURC staff submitted comments in this docket responding with a definition for services that should be eligible for universal service support, administration of the Fund, and how contributions to the Fund should be calculated. The comments pointed out that it is premature for the FCC to change the current allocation system without first determining the actual cost of providing local exchange service.

The Commission has much more work to do in the area of universal service. Under the TA-96, state commissions have many responsibilities regarding universal service.

Opportunity Indiana

Under the terms of the settlement agreements approved by the Commission as part of the Opportunity Indiana plan, Ameritech has continued to reduce its rates for both residential and business customers. The rate reductions were as follows: intrastate access charges reduced 42 cents on January 1, 1996 and 41 cents on June 1, 1996.

Since the adoption of Opportunity Indiana, Ameritech has made 245 tariff filings under the flexible regulatory scheme. Ameritech has used its regulatory flexibility to respond more quickly to competition and customers.

Ameritech continued its commitment of investment in infrastructure to provide advanced services throughout its service area in order to reach every interested school, hospital and major government center. Also, Ameritech shareholders continued their support of the educational community by the contribution of $5 million last year to the Corporation for Educational Communications

(CEC). CEC provides grants for the planning, development, deployment and effective use of interactive distance learning and other advanced communications services.

In order to foster the goal of universal service, the Opportunity Indiana Plan provides that Ameritech Indiana will waive certain nonrecurring charges associated with initiating telephone service for new customers living in geographic areas with below-average telephone service penetration rates, during a preselected 30-day period each year (through 1997). The initial waiver was offered to 42,000 potential customers in November 1994 and attracted 1,516 new subscribers. One year later or 18 months after these customers started service under the plan (May 31, 1996), 1,065 customers, or 70%, no longer had local telephone service. Free subscription was again offered in November, 1995, which resulted in 237 new subscribers. Through May 31, 1996, 94 or 40%, of those customers either discontinued service or were disconnected by Ameritech.

Extended Area Service (EAS)

On June 21, 1996, the Commission issued an order in Cause No. 40097, an Investigation relating to Extended Area Service, approving a second optional discounted toll plan, Enhanced Optional Community Calling Plan (Enhanced OCCP). The purpose of the Enhanced OCCP is to address the situations in which it had been determined that there is a high community of interest between two exchanges, but the exchanges are not eligible to use the existing OCCP.

On May 30, 1996, the Commission approved a proposal by GTE North, Inc. (GTE) to initiate a 12-month trial of an optional EAS calling plan to replace existing intrastate, intraLATA message toll calling charges between certain GTE exchanges. The LCP provides an optional local calling plan between GTE exchange areas in the Terre

Haute LATA where EAS calling does not presently exist, but where there is a community of interest of at least 1.5 calls per customer account per month.

Quality of Service

The Commission believes quality of service will become an increasingly important component of telecommunications regulation. Quality of service contains two components: technical aspects of the telecommunications network and customer service provided by a telecommunications company. In general, three methods can be used to oversee quality of service: industry standards, government agency controls, and competitive forces.

Competition may affect each component of quality of service differently. Competition brings a host of problems in terms of the technical aspects of the telecommunications network. One question raised by the Executive Committee in Cause No. 39983 (the Commission's investigation into local exchange competition) is whether equal technical standards should be set for all new carriers. As a market control, competition, if successful, may promote higher quality of service. Current data analyzed regarding various measurements of quality of service may indicate a decline in service quality in recent years.

Technological changes in the telecommunications industry, changing market structure, and changes in utility regulation require an update in the quality of service standards. As the telecommunications industry moves away from rate-of-return regulation to incentive regulation and eventually competition, the Commission is concerned that the high quality of service residents currently receive be maintained.

III. THE TELECOMMUNICATIONS ACT OF 1996 (TA-96)

On February 8, 1996, President Clinton signed the Telecommunications Act of 1996 into law. As the first legislative reform of the nation's telecommunications industry in 62 years, the Act is a landmark piece of legislation designed to establish a national policy framework to implement fundamental change in the structure and dynamics of the telecommunications industry. The principal goal of the TA-96 is the introduction of competition into the industry, particularly within the local exchange. For telecommunications service providers, the core of the TA-96 is a quid pro quo from the RBOCs, i.e., the RBOCs will be allowed to get into the long distance and manufacturing business, in return for which they must open their markets to local competition.

The TA-96 affects nearly all areas of intrastate telecommunications services either directly through actions required of the states or indirectly through rulemakings required of the FCC. The key provisions of the TA-96 are as follows:

Interconnection

Section 251

Description:

Establishes the requirements for interconnection as follows:

(A) All telecommunications carriers must:

- Interconnect directly/indirectly with other carriers
- Not install network features, functions, or capabilities that do not comply with requirements under Sections 255 or 256

(B) All local exchange carriers must comply with requirements under (A) and:

- Not prohibit resale of its telecommunications services
- Provide number portability pursuant to FCC rules

- Provide dialing parity to competitors
- Permit nondiscriminatory access to telephone numbers, operator services, directory assistance and directory listings
- Afford access to rights-of-way to competitors on rates, terms and conditions consistent with Section 224.
- Establish reciprocal compensation arrangements for transport/termination of telecommunications traffic.

(C) Incumbent LECs must comply with the requirements of (A), (B), and those listed below:

- Duty to negotiate in good faith (as must the requesting carrier)
- Provide interconnection with the requesting carrier:
  1. For transmission/routing of traffic
  2. At any technically feasible point
  3. Of at least equal quality as provided to itself/affiliate
  4. On just, reasonable and nondiscriminatory rates, terms and conditions in accordance with Sections 251 & 252
- Provide nondiscriminatory access to unbundled network elements
- Offer all retail services at wholesale prices to carriers (protect against arbitrage)
- Provide reasonable notice of changes in transmission/routing information
- Provide for physical collocation unless a state commission approves virtual collocation.

State Duties:

- Once a rural telephone company receives a bona fide request for interconnection, a state commission must conduct an inquiry to decide whether to terminate the exemption. *(Rural LECs are exempt from the interconnection requirements under Section (C) as listed above until the* *state commission finds that interconnection is in public interest and "not unduly economically burdensome.")*

- Upon receipt of a petition from a small LEC, a state commission must determine whether to grant an exemption from or modification of interconnection requirements. *(Small LECs, defined as having fewer than 2% of Nation's subscriber lines, may petition for a waiver or exemption from the requirements under Sections (B) & (C) as listed above.)*
- State commission may establish/continue to enforce intra-state access and interconnection standards consistent with Section 251.
- State commission must determine if physical collocation is impractical due to technical reasons or space limitations, upon request of a LEC.
- State commission may prohibit arbitrage in resale market, in accordance with federal regulations.

Federal Duties:

- FCC must establish regulations to implement Section 251, including unbundled access standards.
- FCC must create or designate impartial entity(ies) to administer telecommunications numbers on equitable basis. (exclusive jurisdiction)
- FCC must determine competitively neutral basis to allocate costs of number administration and number portability to all telecommunications carriers.
- FCC may deem a comparable carrier or class of carriers as incumbent LECs.

Potential Conflict:

- FCC regulations may not preclude the enforcement of any State access policies provided the State rules are consistent with the requirements of the Section <u>and</u> do not substantially impair the purposes of this Part.

- Unless otherwise determined by the FCC, Commercial Mobile Radio Service (CMRS) providers are excluded from the definition of LEC.

Timeline:

- FCC must promulgate rules to implement this section within 6 months of the date of enactment.
- State commissions must complete inquiry on exemption for rural telephone companies from interconnection requirements within 120 days.
- State commissions must decide on petition of small telephone company for waiver of interconnection requirements within 180 days.

Negotiation, Arbitration, and Approval of Interconnection Agreements

Section 252

Description:

Establishes procedures to execute interconnection agreements--voluntarily or through state mediation or arbitration--and approval of the agreements.

State Duties:

- Upon request of a party in negotiations, State commission must mediate unresolved issues within a negotiation.
- Upon the request of a party, a State commission must arbitrate unresolved disputes in an interconnection negotiation. A petition for state commission arbitration must be filed during the period of 135th to 160th days of negotiations. *(A State commission may only address issues set forth in the petition.)* Any arbitrated resolution by State commission must ensure compliance with Section 251,

pricing standards in Section 252 and establish an implementation schedule.

- State commission must approve all negotiated interconnection agreements. *(State commission may only reject negotiated or mediated agreements if discriminatory or inconsistent with public interest. A negotiated agreement which is not arbitrated by a State commission does not have to comply with the interconnection requirements under Section 251(b) and (c).)*
- A RBOC may file a statement of terms generally available for interconnection with a State commission. In the event that a RBOC does not receive a request for interconnection, RBOC must receive approval of the State commission of the RBOC's statement of terms generally available (for interconnection) as a precursor to FCC's approval of the provision of in-region interLATA services.
- In determining charges for interconnection/network elements, transport and termination, a State commission must use pricing standards in Section 252, which require non-discriminatory cost-based rates. *(Prohibits a State from referring to a rate proceeding.)*
- State commission must determine wholesale rates on the basis of retail rates charged to subscribers, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the LEC.
- State commission must make approved interconnection agreements/statements of generally available terms public within 10 days.
- State commission may require additional requirements of State law, such as minimum service standards, consistent with Section 253.

Federal Duties:

- If a State commission fails to act under any of its responsibilities in Section 252, then the FCC shall have jurisdiction over the matter.

Potential Conflict:

- State actions may not be inconsistent with the purposes of this part.

Timeline:

- State must finish arbitration requirements within 9 months from the date the incumbent LEC received the interconnection request.
- State decision on negotiated agreement within 90 days of receipt and on arbitrated agreements within 30 days of receipt. *(Or automatic approval)*
- State decision on RBOC statement of terms generally available within 60 days of receipt.

Removal of Barriers to Entry

<u>Section 253</u>

Description:
General prohibition on any state or local statute/regulation which prohibits or has the impact of prohibiting any entity from providing intrastate/interstate telecommunications service.

State Duties:

- State may impose terms and conditions of entry, on a competitively neutral basis and consistent with Section 254, that are needed to protect public safety and welfare, safeguard the rights of consumers, preserve and advance universal service and ensure quality services.

- State (and local) government retain the right to manage and to require compensation for use of public rights-of-way on nondiscriminatory and competitively neutral basis.
- State may require a carrier seeking to provide service in an area served by a rural telephone company to meet the criteria for being an Essential Telecommunications Carrier (ETC).

Federal Duty:

- FCC must preempt any state or local statute/regulation that violates subsection (a) or (b). (Does not apply to rights-of-way issue.)

Potential Conflict:

- FCC acts as appellate reviewer of State policies to implement this section.

Timeline:

- None. (effective immediately) Before issuing a preemptive order, the FCC must allow for notice and an opportunity to comment.

Universal Service & Essential Telecommunications Carriers

Sections 254 & 214(e)

Description:

FCC to develop a national minimum definition of universal service and to establish federal support mechanisms, based upon recommendations of a Federal-State Joint Board, which is established under Section 254. States continue to have primary role in implementing universal service for intrastate services, provided that State regulations are not inconsistent with FCC rules.

State Duties:

1. State regulations may not be inconsistent with FCC rules to preserve and advance universal service.
2. State may adopt additional definitions and standards, to the extent that:
   - State regulations adopt "specific, predictable and sufficient mechanisms" to support them; and
   - Regulations do not rely on or burden federal universal support mechanisms.
3. State commissions must determine the manner in which all intrastate carriers shall contribute to intrastate universal service.
4. State commission must designate Intrastate Essential Telecommunication Carriers ("ETC")

   (The law defines the ETC as a common carrier of services included in federal universal service definition. Only ETCs are eligible to receive federal universal service support.)
   - Upon request, State may designate more than one ETC in an area served by a rural telephone company, if found to be in the public interest.
   - State required to designate more than one ETC in other areas upon request and consistent with public interest.
   - State must designate intrastate ETC for unserved areas.
5. State commission must permit ETC to relinquish designation in areas where there is more than one ETC.
   - Remaining ETCs must serve customers of exiting carrier.
   - Must be sufficient notice to allow remaining ETCs to build/acquire facilities to meet additional service needs.
   - Construction/purchase period may not exceed one year from the date that a State approves ETC requests to relinquish designation.

6. State commission must determine discount for intrastate universal services, which are included in the federal definition of universal service, provided to elementary/ secondary schools and libraries. Carriers eligible for offset to contribution to or reimbursement from universal service mechanism.
7. A telecommunications carrier is entitled to the difference between rates for intrastate services to rural health care providers and rates for comparable services to other rural customers. Only services included in the universal service obligation are eligible.
8. State commissions must establish cost allocation rules, accounting safeguards and guidelines for intrastate services to ensure that noncompetitive services do not bear unreasonable share of joint and common costs.
9. State commission must ensure that universal service is available at just, reasonable and affordable rates.
10. State commission must define "service area" for the purposes of determining universal service obligations and support mechanism for areas not served by rural telephone companies.

FCC Duties:

1. FCC must establish a 410(c) Joint Board.
   - Must include one state-appointed utility consumer advocate.
   - Joint Board to recommend changes to any of FCC regulations in order to implement new Act.
   - Includes the definition of services that are supported by the federal universal service support mechanism; and
   - A specific time table for completion.
   - Joint Board may, from time to time, recommend to the Commission modifications in the definition of services that are supported by federal universal service support mechanism.

2. FCC must initiate single proceeding to implement recommendations from Joint Board.
3. FCC must adopt rules to ensure geographically averaged interstate toll rates and interexchange rates.
4. FCC must establish federal universal service funding mechanism. All interstate carriers must contribute to specific, predictable and sufficient mechanisms.
5. FCC may designate additional services for support from federal universal service mechanisms for schools, libraries, and health care providers.
6. FCC must determine discount for interstate universal services for elementary/secondary schools and libraries. Carriers are eligible for offset or reimbursement from universal service mechanism.
7. Upon request, a telecommunications carrier is entitled to reimbursement for the difference between rates for interstate services to rural health care providers and rates for comparable services to other rural customers. Only services included in the universal service obligation are eligible.
8. FCC must establish competitively neutral rules to enhance access to advanced telecommunications and information services for all public and nonprofit elementary/secondary schools, health care providers and libraries.
9. FCC must define when a carrier can be required to provide service to public institutional users.
10. FCC must designate ETC for unserved areas (interstate service).
11. FCC must establish cost allocation rules, accounting safeguards and guidelines for interstate services to ensure that noncompetitive services do not bear unreasonable share of joint and common costs.
12. FCC must ensure that universal service is available at just, reasonable and affordable rates.

Potential Conflict:

- State regulations may not be inconsistent with FCC regulations.
- State designation as Essential Telecommunication Carrier is necessary for a carrier to be eligible for federal funding.
- Potential for conflict in cost/usage allocation methodologies for intrastate and interstate usage for schools and libraries.

Timeline:

- FCC must establish the Joint Board within one month of enactment.
- The Joint Board must make recommendations within nine months of enactment.
- FCC to issue regulations implementing Joint Board's recommendations within 15 months of enactment. Any proceeding to implement subsequent recommendations from Joint Board on universal service must be completed within one year after receiving recommendations.
- FCC to issue rules to ensure geographically averaged interstate toll rates within six months of enactment.

RBOC Entry Into InterLATA Services

Section 271

Description:

Allows RBOCs to enter out-of-region interLATA and incidental interLATA services upon enactment and to enter in-region interLATA services after receiving authority from the FCC.

State Duties:

- To obtain in-region interLATA authority from the FCC, the RBOC must enter into at least one agreement for interconnection with a facilities-based provider that provides service predominantly over its own network and must meet the competitive checklist (as described below). The interconnection agreement(s) must be approved by the State commission.

- If RBOC has not received a request for interconnection, then it may submit to the FCC a "statement of terms generally available" (for interconnection and access), which a State commission must approve prior to submission. In addition a RBOC is considered not to have received a request for interconnection if the State commission certifies that the only provider making a request failed to negotiate in good faith or has violated the terms of the agreement by failing to comply with the implementation schedule contained in the agreement. Prior to entering the interLATA market, a RBOC must comply with the requirements of Section 271, which include the competitive checklist. (The RBOC must wait 10 months after enactment to apply for certification in this manner. Further, the RBOC must not have received any requests for interconnection from a provider 3 months prior to the date the application is made, that is, 7 months from the date of the enactment.)
- The State commission shall consult with the FCC to verify a RBOC's compliance with the requirements of Section 271.
- Single-LATA States and States that have issued an order requiring intraLATA dialing parity as of December 19, 1995 may continue that requirement. Other states may order intraLATA dialing parity, but may not require RBOC to provide intraLATA dialing parity before the earlier of 3 years after enactment or when the RBOC obtains interLATA authority. (RBOC must provide intraLATA toll dialing parity throughout the State upon approval to enter in-region interLATA market.)

Federal Duties:

- A 14-point competitive checklist must be met for the RBOC to be granted entry to in-region interLATA services. The checklist consists of the following items:
  1. Interconnection;
  2. Nondiscriminatory access to network elements;
  3. Nondiscriminatory access to poles, ducts, conduits and rights-of-way;
  4. Local loop transmission from the central office to the customer's premises;
  5. Local transport from the trunk side of a wireline exchange carrier switch;
  6. Local switching unbundled from transport, local loop transmission, or other services;
  7. Nondiscriminatory access to 911, E911 directory assistance, and operator call completion services;
  8. White page directory listings for customers of the other carrier;
  9. Nondiscriminatory access to telephone numbers;
  10. Nondiscriminatory access to databases and signaling necessary for call routing;
  11. Interim number portability;
  12. Nondiscriminatory access to services or information necessary to allow the requesting carrier to implement local dialing parity;
  13. Reciprocal compensation arrangements;
  14. Telecommunications services available for resale.
- The FCC shall notify and consult with the U.S. Attorney General regarding the RBOC's application for in-region interLATA relief, although U.S. Attorney General's evaluation of the application shall not have a preclusive effect on the FCC's decision.
- The FCC shall consult with the State commission of any state that is the subject of the application for in-region

interLATA relief to verify compliance with the requirements of Section 271(c).

- The FCC will issue a written determination approving or denying the authorization and shall state the basis for its decision.

Potential Conflict:

- None

Timeline:

- The FCC must make a decision within 90 days.

Regulatory Forbearance

Section 401

Description:

The FCC must forbear from applying any regulation or provision of this Act if the FCC determines that:

1. The regulation or provision is not necessary to ensure just, reasonable, and nondiscriminatory rates;
2. The regulation/provision is not needed to protect consumers; and
3. Forbearance is consistent with the public interest (including whether it will promote competition).

State Duty:

- States must forbear from applying a provision of this Act when the FCC decides to forbear from applying it.

Federal Duty:

- The FCC decides when it is appropriate to forbear from applying a provision of the Act or a regulation developed pursuant to the Act.

Potential Conflict:

- FCC may decide to forbear from applying a regulation which some or all states may believe is still needed. According to the Conference Report, the FCC's decision to forbear does not affect a State's authority to enforce regulations pursuant to State statutes or regulations. Litigation may result.

Timeline:

- The FCC may decide to forbear at any time. The FCC may not forbear from applying Sections 251(c) (interconnection duties of incumbent local exchange carriers) or Section 271 until after those sections have been fully implemented.

Advanced Telecommunications Incentives
Section 706

Description:

The FCC and the States must encourage the deployment of advanced telecommunications capability on a timely and reasonable basis to all Americans using price cap regulation, regulatory forbearance, other measures to promote competition in local telecommunications markets, or other methods to remove barriers to infrastructure investment.

State Duties:

- The State responsibilities are outlined in the description.

Federal Duties:

- The FCC's responsibilities to encourage deployment of advanced telecommunications capability is outlined above.
- The FCC must initiate and complete a proceeding to assess the progress of the deployment of advanced telecommunications capability.

- Upon a finding that the deployment is not occurring in a "timely and reasonable fashion," the FCC must act immediately to accelerate the deployment through removal of barriers to infrastructure investment and promotion of competition.

Potential Conflict:

- This section raises a potential 152(b) conflict.

Timeline:

- FCC must initiate the proceeding within 30 months of the enactment and complete it within 180 days of its initiation.
- The inquiry must be performed on a regular basis thereafter.

<u>IURC response to TA-96</u>

In order to respond to the mandates and time constraints imposed by TA-96, the Commission, on March 8, 1996 (thirty days after the TA-96 was signed into law) formed the Telecommunications Work Group (TWG). The TWG is composed of seven members of the IURC staff and reports directly to the Director of Utilities. The group is responsible for the implementation of all aspects of the TA-96 including all cases and rulemakings. The goal of this work group is to more efficiently utilize the Commission's limited resources to deal with the requirements and timelines of the TA-96. In March and April the TWG held a series of meetings with representatives of various segments of the telecommunications industry, consumer groups, and other interested parties to discuss the procedural and administrative aspects of implementing the TA-96.

On April 11, 1996, the IURC staff submitted comments to the FCC in response to the FCC's Notice of Formation of a Federal - State Joint Board on Universal Service as required by the TA-96[3].

On May 20, 1996, the IURC staff submitted comments on the FCC's Notice of Proposed Rulemaking, In re: the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, urging the FCC to develop the broadest federal guidelines possible that would provide state commissions with considerable flexibility for implementation of the TA-96.

On June 5, 1996, the Commission issued an Interim Procedural Order establishing the procedures by which the Commission will receive and process filings of interconnection agreements, requests for mediation or arbitration, and petitions for exemption, modification or suspension from rural telephone companies under the TA-96.

On June 7, 1996, the Commission issued a Docket Entry in Cause No. 39983 to schedule a hearing on any issues related to unbundled resale of local exchange telephone services and facilities-based competition to be held July 15-18, 1996.

On July 1, 1996, the Commission issued an Interim Order on Bundled Resale and Other Issues ("Resale Order") in Cause No. 39983 setting forth the terms and conditions for the resale of local exchange services and ordering affected local exchange companies to file wholesale tariffs by July 24, 1996. Also, in the Order the IURC directed that a number portability task force be formed to review and consider the technological issues related to long term

[3] See Section IV, D, Pages 46 and 47, for a summary of the comments.

number portability and the associated cost[4]. The task force will be facilitated by two members of the Commission's Telecommunications Work Group and will have its first meeting on July 11, 1996.

[4] FCC Notice, In the Matter of Telephone Number Portability, CC Docket No. 95-116, RM 8535, Final Rules issued June 27, 1996.

IV. LOCAL EXCHANGE COMPETITION

A. LOCAL EXCHANGE CARRIERS

The Commission continued its investigation of competition within the local exchange areas of Indiana which had been commenced prior to enactment of the TA-96.[5] Since last year's report the following progress has been made in the local telephone exchange competition investigation:

- the Final Report of the Executive Committee was filed with the Commission on January 16, 1996;

- a public hearing on the issues pertaining to the resale of local exchange service was held February 12 - 16, 1996;

- an Interim Procedural Order establishing the procedures by which the Commission will receive and process filings of interconnection agreements, requests for mediation or arbitration, and petitions for exemption, modification or suspension from rural telephone companies under the TA-96 was issued June 5, 1996;

- a "resale" order that establishes certain conditions necessary to allow the resale of local exchange services by alternative local exchange carriers ("ALEC") was issued July 1, 1996;

- an organizational meeting was scheduled to facilitate development and selection of a long-term number portability solution (July 11, 1996); and

[5] In re: The Matter of the Investigation on the Commission's Own Motion Into Any and All Matters Relating to Local Telephone Exchange Competition Within the State of Indiana, Cause No. 39983, approved June 15, 1994.

- a July public hearing on issues relating to facilities-based competition and the unbundling of local exchange facilities was scheduled for July 15 - 18, 1996.

Additionally, during the past year, the Commission has approved the request by MCI for a trial permitting the resale of certain local exchange services (Centrex-like services).[6]

The TA-96 imposes obligations and responsibilities on telecommunications carriers that are designed to open monopoly telecommunications markets to competitive entry. State commissions are charged with performing specific regulatory duties under the TA-96 that are meant to initiate pro-competitive policies at the local exchange level. State commissions must also undertake new administrative responsibilities that include advancing the goals of universal service and establishing policies for access to advanced telecommunications services by schools, libraries and health care providers.

1. Investigation on the Commission's Own Motion - Cause No. 39983

On June 15, 1994, the Commission commenced an investigation of any and all matters relating to local telephone exchange competition within the State of Indiana. Given the potentially far-reaching impact and ramifications of local exchange competition, all providers of telecommunications services within the State of Indiana and under the jurisdiction of the Commission were named respondents in this Cause. An Executive Committee was

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[6] See In Re: The Matter of the Petition of MCI Telecommunications Corporation for the Commission to Modify Its Existing Certificate of Public Convenience and Necessity and to Authorize the Petitioner to Provide Certain Centrex-Like Intra-Exchange Telecommunications Services in the Indianapolis LATA Pursuant to I.C. 8-1-2-88, and to Decline the Exercise in Part of Its Jurisdiction Over the Petitioner's Provision of Such Services, Pursuant to I.C. 8-1-2.6, Cause No. 39948, filed April 25, 1994, approved November 21, 1995.

proposed as the procedural approach for the orderly gathering and presentation of information.

In its Prehearing Conference (PHC) Order, issued November 2, 1994, the Commission determined that, based upon the parties' general agreement in both written and oral comments, an Executive Committee on Local Telephone Exchange Competition (Executive Committee) and subcommittee approach would be adopted to investigate issues relating to local exchange competition. A preliminary grouping of issues based upon the comments for possible subcommittee review were:

- Economic issues: These include pricing, resale and sharing, embedded investment/mandated infrastructure improvements and compensation, cost, imputation, billing, subsidies, discrimination among carriers, rate deaveraging, intraLATA switched toll market structure and compensation arrangements, effect of legislative ban on Local Measured Service (LMS) on compensation and on resale;

- Regulatory issues: These include regulatory symmetry, reporting/accounting requirements, geographic or franchise/ certification requirements, service offering, equal access to local and long distance carriers, extended area service, and rate unbundling, co-location issues, Open Network Architecture (ONA) issues, franchise restrictions, regulation of resale providers and services, regulatory parity, regulatory obligations and requirements, Customer Proprietary Network Information and Commission authority over Rural Telephone Cooperatives that have withdrawn from the Commission's jurisdiction;

- Public Policy issues: These include universal service, provider of last resort obligations, duality of regulation and urban/rural distinctions, service unbundling, minimization of costs and maximization of customer choice, local rates (including contributions), "niche" providers and markets, universal service support, funding and compensation arrangements, Indiana High Cost Fund (IHCF), administration, operations, funding, eligibility for payments, and calculation of the IHCF requirement;

- Technology issues: These include interconnection requirements and standards, service quality - monitoring and standards, technical standards, database access arrangements, i.e., availability of enhanced 911 service, directory listing and directory assistance, number administration/portability, conduits and rights-or-way, end office integration, unbundling, Local Exchange Routing Guide (LERG) issues, interoffice trunking and signalling arrangements, billing record arrangements, presubscription, and billing matters both intercompany and end user.

Based upon the recommendation of the parties, Paul Hartman - a consultant of Hartman & Associates, was named Chairperson of the Executive Committee, and the first Executive Committee on Local Telephone Exchange Competition meeting was held on April 20, 1995. As a result of discussions and written comments received during that meeting and another meeting held on May 9, 1995, four Subcommittees were formed to address the preliminary issues/questions that had been identified and agreed upon by the Executive Committee.[7] The four Subcommittees represented the broad topic areas specified in the Commission's Investigation Order:

[7] On May 16, 1995, the Indiana Telecommunications Association submitted a comprehensive list of topics and associated questions to be addressed by the Executive Committee and each Subcommittee to Mr. Hartman. The Executive Committee and each Subcommittee had the flexibility to add or alter issues/questions, as appropriate.

Economic Issues Subcommittee
Regulatory Issues Subcommittee
Public Policy Issues Subcommittee
Technology Issues Subcommittee

The Final Report of the Executive Committee on Local Telephone Competition was filed with the Commission on January 16, 1996. The Final Report numbered over 1800 pages and included the individual Subcommittee Reports and copies of any comments received or presentations given by interested parties. On February 12 - 16, 1996, the Commission held an initial hearing in this Cause, focusing on the issues related to the resale of local exchange services and the possible impacts of the TA-96 on the parties' positions.

On June 5, 1996, the Commission issued its Interim Procedural Order in this instant Cause, in which a set of proposed procedural guidelines for reviewing negotiated agreements, conducting meditations and arbitrations, and accepting filings made by rural telephone companies for an exemption, suspension and/or modification of certain requirements under TA-96 were approved on an interim basis. These procedural guidelines were designed to allow Commission compliance with the compressed timeframes found in the TA-96. Failure by the Commission to act within the timeframes specified in the TA-96 for processing interconnection agreements would result in preemption proceedings being initiated by the Federal Communications Commission. All respondents in this instant Cause or any entity desiring to object or seek amendment to any term or directive of the Interim Procedural Order and seek an opportunity for hearing thereon has 30 days from the date of the Order in which to file with the Commission.

On June 7, 1996, the Commission issued a Docket Entry in Cause No. 39983 to schedule another hearing, which will be held July 15 - 18, 1996. The public hearing in this phase of the proceeding will be limited to any issues related to unbundled resale of local exchange telephone facilitates and facilities-based competition. The Docket Entry also solicited comments from the parties about how the technical issues surrounding long-term number portability should be reviewed and considered by the Commission.

On July 1, 1996, the Commission issued an Interim Order on Bundled Resale and Other Issues ("Resale Order") in Cause No. 39983 setting forth the terms and conditions for permitting the resale of local exchange services and ordering affected local exchange companies to file their wholesale tariffs on or before July 24, 1996. Interested entities will have until August 7, 1996 to file any comments on all aspects of the proposed wholesale tariffs.

The Resale Order provides a transitional framework for opening the local exchange service market to resale:

- Certification - establishes a streamlined process whereby incumbent and new entrant local exchange service providers may request reseller authorization;
- Extended Area Service - affirms the obligation of incumbent and new entrant resellers to comply with the Commission's extended area service procedures;
- Emergency and Social Services - maintains the duty of all carriers to provide such services as 911 and the Indiana Telephone Relay Access Corporation (InTRAC), including the exchange of database information between the underlying carrier and reseller;
- Directories/Directory Listings - establishes conditions for updating directory information and seeing that customers have access to directories containing the telephone numbers within their toll-free calling area;
- Operational Interfaces - establishes an obligation for the underlying carrier to make electronic interfaces, e.g., electronic access to databases to place service orders,

receive phone number assignments, report cases of trouble, etc., available to resellers;

- Billing - sets out guidelines for billing functions between the underlying carrier and reseller, and the reseller and its customer including responsibility to provide customers with accurate and timely bills;
- Illegal Changes in Subscriber Carrier Selections (Slamming) - adopts interim guidelines for handling any instances in which a customer's selection of local exchange service is changed without proper permission; and
- Complaints - retains the Commission's current complaint procedures to be utilized by carriers and their customers.

In addition to establishing a framework for local exchange service resale in the Resale Order, the Commission directed that a number portability task force be formed to review and consider the technological issues related to long-term number portability and the associated cost of each technology.[8] The first organizational meeting, which will be monitored and facilitated by two Commission staff members, will be held on July 11, 1996. All interested parties are invited to participate in the task force. The task force is directed to file a final report and recommendations on long-term number portability with the Commission on or before November 8, 1996.

2. MCI/Hancock - Consolidated Cause Nos. 39948 and 40130

On April 25, 1994, MCI Telecommunications Corporation (MCI) petitioned the Commission to modify its existing Certificate of Territorial Authority (CTA) to provide Centrex service features on

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[8] The Commission specifically instructed task force participants "to review and consider the 'Stipulation and Settlement Agreement' that was attached to AT&T's June 14, 1996 filing" regarding a number portability task force. The Stipulation and Settlement Agreement was approved by the Illinois Commerce Commission (ICC) in Docket No. 96-0089, the ICC's long term number portability case.

a resale basis within and throughout the Indianapolis Local Access and Transport Area (LATA), and further to decline the exercise of jurisdiction, in part, over MCI's provision of such resold services.[9] On August 25, 1994, MCI amended the Petition by substituting the phrase "Centrex-like" in place of Centrex in its description of the authority requested.

Provision of these Centrex-like services would be accomplished through an arrangement whereby MCI would resell the Centrex-like service of a local exchange company, Hancock Rural Telephone Corporation (Hancock), in the Indianapolis LATA.

On November, 21, 1995, the Commission approved the resale of Centrex-like services by MCI on a trial basis, limited to: certain exchanges that may be called toll free from downtown Indianapolis; provision of service to less than 5,000 access lines; and a timeframe of twenty-four months. MCI's resale tariff has been approved, and the trial officially began on May 21, 1996. MCI will be providing reports containing information about the progress of the trial at ninety day intervals during the 24 month period.

B. RURAL LEC PETITIONS UNDER THE TA-96

Incumbent rural telephone companies are automatically exempt from the access and interconnection obligations of the TA-96. In Indiana, all LECs except for Ameritech Indiana and GTE North meet one or more of the definitions of rural telephone company contained in the TA-96:

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[9] See In Re: The Matter of the Petition of MCI Telecommunications Corporation for the Commission to Modify Its Existing Certificate of Public Convenience and Necessity and to Authorize the Petitioner to Provide Certain Centrex-Like Intra-Exchange Telecommunications Services in the Indianapolis LATA Pursuant to I.C. 8-1-2-88, and to Decline the Exercise in Part of Its Jurisdiction Over the Petitioner's Provision of Such Services, Pursuant to I.C. 8-1-2.6, Cause No. 39948.

Rural Telephone Company. - The term 'rural telephone company' means a local exchange carrier operating entity to the extent that such entity -

(A) provides common carrier service to any local exchange carrier study area[10] that does not include either -

(i) any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or

(ii) any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993;

(B) provides telephone exchange service, including exchange access, to fewer that 50,000 access lines;

(C) provides telephone exchange service to any local exchange carrier study area with fewer that 100,000 access lines; or

(D) has less that 15 percent of its access lines in communities of more that 50,000 on the date of enactment of the Telecommunications Act of 1996.

Under Section 251(f) of the TA-96, rural telephone companies may wait to receive a bona fide request for interconnection or decide to petition the state commission for a suspension and/or modification of certain interconnection requirements. If a rural telephone company receives a bona fide request for interconnection, the state commission must conduct an inquiry for the purpose of determining whether to terminate the interconnection exemption given automatically under the TA-96. Within 120 days of receiving notice of the interconnection request, the state commission must

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[10] For a single exchange company, a study area is the entire telephone exchange. For a multi-exchange company, a study area is a consolidated set of financial data within a jurisdiction, typically the entire state.

For a telephone company that acquires the property of another and plans to operate it under a common business name, it can avoid the automatic consolidation of multiple exchanges into a single study area by seeking a study area waiver from the FCC and the IURC.

The cost of service characteristics of study areas are used to develop exchange specific (or company specific) financial data that determines if the area is a high cost area. High cost areas are eligible for investment recovery assistance (Universal Service Funds at the federal level and/or state high cost funds) that enable subscribers to have affordable telephone service not otherwise possible.

decide if the interconnection request is not unduly economically burdensome, technically feasible, and consistent with the Act's universal service provisions.[11] If the exemption is terminated, the state commission must establish an implementation schedule for compliance with the interconnection request.

If a rural telephone company chooses to file for a suspension and/or modification of the interconnection requirements of the TA-96, a petition is to be filed with the state commission. To grant a petition for suspension and/or modification, the state commission must determine, within 180 days of the date of the petition, (A) that such suspension and/or modification is necessary: (1) to avoid a significant adverse economic impact on users of telecommunications services generally; (2) to avoid imposing a requirement that is unduly economically burdensome; or (3) to avoid imposing a requirement that is technically infeasible; and (B) that such request is consistent with the public interest, convenience and necessity.[12]

As of the date of this report, the Commission has received petitions from two rural telephone companies, requesting suspension of the application of the interconnection requirements of the TA-96: Smithville Telephone Company, Inc. (filed on March 5, 1996, Cause No. 40420) and Northwestern Indiana Telephone Company, Inc. (filed on April 8, 1996, Cause No. 40443). A public hearing in Cause No. 40420, Smithville Telephone, is scheduled to be held on July 1, 1996, and an order is expected to be issued on the request for suspension on or before September 5, 1996, as required by the TA-96.

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[11] Telecommunications Act of 1996, Section 251(f)(B).

[12] Ibid, Section 251(f)(2).

C. INTERCONNECTION/FCC

One major component of the pro-competitive framework established by the TA-96 is the duty of all local exchange service competitors to interconnect with each other through negotiated interconnection agreements. Sections 251 and 252 of the TA-96 impose specific requirements for interconnection and certain obligations and duties on incumbent LECs, new entrants, the FCC and state commissions in order to open monopoly telecommunications markets to competitive entry. Specifically for state commissions, interconnection agreements filed voluntarily or through state mediation or arbitration processes must be reviewed and approved within designated timeframes, or the FCC must begin preemption proceedings.

On April 19, 1996, the FCC issued a Notice of Proposed Rulemaking ("Notice"), In re: the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98. The FCC stated that the Notice:

> [is] one of a number of interrelated proceedings designed to advance competition, to reduce regulation in telecommunications markets, and at the same time to advance and preserve universal service to all Americans.[13]

The FCC sought comment in the Notice on the need to establish explicit "national standards" that must be used by state commissions when reviewing and approving interconnection agreements. In the Notice, the FCC also proposed a set of national pricing standards for interconnection agreements.

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[13] Notice, Para. 3, at 3.

In response to the Notice the IURC staff submitted comments to the FCC on May 20, 1996, urging the FCC to develop the broadest federal guidelines possible that would provide state commissions with considerable flexibility for implementation of the Telecommunications Act of 1996 for the following reasons:

- The Notice lacked sufficient detail upon which to establish a set of prescriptive local exchange competition implementation rules.
- The IURC has been investigating and moving ahead with local competition, building a complete record based upon Indiana-specific local exchange conditions in its local competition case (IURC Cause No. 39983).
- In addition, the IURC has received at least three applications from non-incumbent LECs desiring to provide some form of local telephone service in Indiana and at least two requests for suspension and modification. The IURC is moving ahead on these cases, as well.
- Congress has given state commissions a great deal of statutory authority and responsibility involving interconnection agreements.
- National pricing rules are not justified based upon economic principles and, given Indiana's flat-rate pricing environment, may compel local exchange rate increases.
- State specific analysis is necessary when considering existing interconnection agreements. There is no benefit to establishing a nationwide policy.

Pursuant to the TA-96, the FCC has until August 8, 1996 to issue the order implementing Sections 251 and 252 provisions; however, this date is after many of the requests for interconnection will have moved into their mediation and/or arbitration phases in Indiana under the TA-96 timeframes. (The IURC has already received a request for mediation from Ameritech and AT&T.) The IURC, therefore, will continue to monitor the FCC activities in this docket, but will also be moving forward with Indiana interconnection agreement negotiations, as needed.

D. UNIVERSAL SERVICE

The definition of universal service has always been a difficult issue at both the federal and state levels. Notwithstanding this lack of specific definition, however, one typical measure of universal service remains the calculation of the telephone "penetration rate" (or level) for a particular geographic area, or for a particular class of customers, or both. The penetration rate is not simply the number of residential telephone lines divided by the number of households. The growing number of households with second lines, and/or with second homes makes this method of calculating telephone penetration inaccurate. Rather, the Census Bureau asks during its routine conduct of the nation's census whether or not there is a telephone in the housing unit, and then calculates the percentage of households in a particular geographic area that have a telephone on the premises.

As of the February, 1996, "Telephone Subscribership in the United States" report issued by the FCC, Indiana's Annual Average Percentage of Households with Telephone Services was 94.4%, based upon data collected through November 1995. This compares to the 1994 Annual Average of 93.6%.

1. Factors Which May Affect Universal Service

On July 20, 1995, the FCC published a Notice of Proposed Rulemaking ("Notice") on Subscribership, In re: Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network. In the Notice, the FCC requested comments on several proposals and tentative conclusions concerning certain local and toll service disconnection policies, penetration rates, and telephone assistance programs. The FCC stated in the Notice that "our objective is to develop methods to enhance subscribership levels in a cost effective manner" and that it sought comment "on prohibiting any common carrier from interrupting or disconnecting local exchange service for failure to pay interstate long-distance charges." On September 27, 1995, the IURC filed comments in this docket, stating in part:

> DISCONNECTION POLICIES
>
> [C]ustomers' inability to pay long distance charges and the lack of control over long distance bills are two significant barriers to remaining on the public switched network. In Indiana, there is no specific statute or administrative rule that prohibits a local exchange company (LEC) from disconnecting customers from their local basic service due to outstanding long distance charges. However, other IURC administrative rules, which are designed to provide customers with appropriate notification about and alternatives to local service disconnection, have proven effective in handling these situations. When requested by the customer or the IURC Consumer Affairs Division, LECs in Indiana generally have been willing to review the customer's bill and the pending disconnection and, when appropriate, to implement toll blocking.
>
> ALTERNATIVE DISCONNECTION POLICIES
>
> The IURC believes the marketing of local service features such as customer calling features to low income customers can also affect customers' connection to the network. When those low income customers do not pay - or are late in paying - for such vertical services, the effect is the same as occurs with delinquent toll customers - local service disconnection. If a LEC does market call-waiting, voice mail, linebacker, etc. to a customer who has trouble paying for basic local service, and this customer becomes delinquent, removing these features prior to complete disconnection would be an alternative measure that may encourage continued subscribership.
>
> On March 22, 1995, the IURC approved a request by GTE North, Inc., to implement its Advanced Credit Management system. This procedure allows blocking of customer access to the toll network, in lieu of local service disconnection, once certain credit limits have been exceeded.[14] Customers whose toll service is blocked under this procedure will still be able to place and receive local calls, and will be able to place calls to emergency agency numbers that are long distance. A

[14] All types of toll services are blocked under this scenario.

charge for restoring service is not applicable when the customer's toll service is unblocked. GTE stated in the supporting material it submitted with this filing that this procedure will result in fewer deposits being required from new customers, cut the amount of uncollectibles due to excessive toll use, and reduce the number of complete disconnections of service. GTE also submitted cost support studies in which the Company projected a positive revenue impact, mainly due to a reduction in uncollectibles. At this point, the IURC has not attempted to collect any empirical data about the new credit plan; the procedure does, however, appear to offer some benefits for both customers (a possible increase in customer penetration rates) and GTE North, Inc.[15]

As of the date of this report, the FCC had not issued an order in the Subscribership docket, and the IURC has not pursued further analysis of this issue.

2. Existing Efforts to Achieve Universal Service

There are three existing programs in Indiana that may increase the availability or the affordability, or both, of telephone service: 1) Link-Up Indiana, 2) the Indiana High Cost Fund (IHCF), and 3) the federal Universal Service Fund (USF).

The programs to foster universal service are generally targeted toward one of two groups: 1) end user customers (Link-Up Indiana) or 2) certain telephone companies with certain above average fixed costs, which tend to be rural LECs (state IHCF and federal USF). A discussion of each of these programs follows.

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[15] Comments of the IURC in CC Docket No. 95-115, In the Matter of Federal-State Joint Board on Universal Service, filed September 27, 1995.

a. Financial Assistance for End User Customers: Link-Up Indiana[16]

The Link-Up Indiana program provides qualified households with a fifty percent reduction in a LEC's normal nonrecurring charges for initiating basic, local, residential telephone service. The underlying assumption is that customers will respond to changes in prices: when telephone rates and charges decrease, more people will subscribe to telephone service, and when telephone rates and charges increase, fewer people will subscribe. Link-Up is intended to make telephone service affordable to persons who might otherwise be unable to subscribe to telephone service because of the connection charge.

The FCC Monitoring Report indicates that 2,999 subscribers in Indiana received Link-Up assistance in 1995 for a total cost of $97,996. This compares to the 1994 results of 5,010 subscribers receiving Link-Up assistance at a total cost of $117,045.

b. Indiana High Cost Fund (IHCF)[17]

The intrastate Indiana High Cost Fund (IHCF) is designed to provide financial assistance to certain small LECs with above-average intrastate Non-Traffic Sensitive (NTS) costs. The IHCF assistance is intended to lessen the need for the affected LECs to raise their local rates to recover a portion of these NTS costs. The Indiana High Cost Fund Administrator (Indiana Bell) makes two types of payments to qualified small LECs: 1) the End User Offset

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[16] For a general discussion of the Link-Up America program, see U.S. General Accounting Office, Telephone Communications: Cost and Funding Information on Lifeline Telephone Service (Sept. 1, 1987), Report No. GAO/RCED-87-189. See, also, In re MTS and WATS Market Structure, CC Docket Nos. 78-72, 80-286, Report and Order, May 19, 1987, 2 F.C.C. Rcd. 2953.

[17] See, e.g., Cause No. 38269, at 53-62 (Ind. URC Oct. 7, 1992((Phase II Executive Committee Report). See also Cause No. 38269, Finding No. 8, at 25-32, Ordering Para. No. 8 (incorp. Finding No. 8), at 41 (Ind. URC Dec. 18, 1992) (Phase II Order); Cause No. 37905, Attachment 1 (Ind. URC Sept. 19, 1990) (Final Report).

payments and 2) the regular High Cost Fund payments. Funding companies include all LEC intraLATA Toll Providers with certain types of annual billed intraLATA toll revenues of at least $10 million; plus all interexchange carriers (IXCs), resellers, and Alternative Operator Service (AOS) providers with certain types of annual booked intrastate toll revenues of at least $10 million. For 1995, LEC funding companies included Indiana Bell, GTE North, and United Telephone; long-distance funding companies included AT&T, MCI, Sprint, One Call and LDDS.

The IHCF Administrator calculates a total "revenue requirement" for the Indiana High Cost Fund (including the total amount of the End User Offsets, the regular High Cost Fund, and Indiana Bell's expenses for administering the Fund), based upon information provided by the small LECs, plus certain previous Commission determinations in Cause No. 37905 about the recipients and the amount of the End User Offset payments. The Administrator then determines each funding company's share of the annual revenue requirement, based upon each company's intrastate carrier common line charge (CCLC) access minutes (both originating and terminating). In 1989, the Commission set a cap on the total IHCF revenue requirement of $1.5 million;[18] on December 18, 1992, the Commission reaffirmed this cap.[19]

In 1995, the funding companies paid a total amount of $786,406 into the Fund. The IHCF Administrator had $1,847 in expenses; $703,223 was paid out to 13 different LECs for the regular High

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[18] Cause No. 38269 (Phase I), finding No, 5, at 10, 102 PUR4th 330, Ordering Para. No. 4, at 17 (incorp. Finding No. 5), 102 PUR4th 335 (Ind. URC April 12, 1989).

[19] _In re: An Investigation, on the Commission's Own Motion, into Matters Pertaining to and the Effects of Intrastate Carrier Access charges and to Develop Recommendations for Further Commission Action Into Matters Relating to such Intrastate Carrier Access Charges_, Finding Para. No. 8, at 32; Ordering Para. No. 8, at 41, Cause Nos. 38269 (Phase II), 38269-S3, and 38269-S4 (Ind. URC Dec. 18, 1992) ("Order on Less Than All the Issues and _Nunc Pro Tunc_ Order").

Cost Fund payments; $81,336 was paid out to 8 companies that were eligible for the End User Offset (6 of those companies receiving regular High Cost Fund payments were also eligible for the End User Offset payments).

c. Universal Service Fund (Federal High Cost Fund)

Sections 254 and 214(b) of the TA-96 establish both federal and state duties regarding universal service in a competitive local exchange market environment. More specifically, Section 254(a)(1) of the TA-96 requires that a Federal-State Joint Board be established to review existing regulations and to base future policies for the preservation and advancement of universal service on the following principles contained in Section 254(b):

- QUALITY AND RATES - Quality services should be available at just, reasonable, and affordable rates.

- ACCESS TO ADVANCED SERVICES - Access to advanced telecommunications and information services should be provided in all regions of the Nation.

- ACCESS IN RURAL AND HIGH COST AREAS - Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

- EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS - All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

- SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS - There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.

- ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES - Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services.

- ADDITIONAL PRINCIPLES - Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

On March 8, 1996, the FCC published a Notice[20] establishing a Federal-State Joint Board and requesting comment to (1) define the services that will be supported by federal universal service support mechanisms; (2) define those support mechanisms; and (3) otherwise recommend changes to the [FCC's] regulations to implement the universal service directives of the TA-96. On April 11, 1996, the IURC staff submitted comments in this docket responding with a definition for services that should be eligible for universal service support, administration of the Fund, and how contributions to the Fund should be calculated. The majority of the IURC staff comments, however, responded to the FCC's assertion that "subsidies" flow to certain local exchange services, keeping the price of these certain services lower than their actual cost. The comments pointed out that it is premature for the FCC to change the current allocation system without first determining the actual cost

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[20] In re the Matter of Federal-State Joint Board on Universal Service, CC Docket 96-45, Released March 8, 1996.

of providing local exchange service - and all other services that utilize the local loop, end office switch and, in certain cases, the incumbent LECs' tandem switch(es) and/or local transport facilities, since costs are shared between many different services.

The Commission has much more work to do in the area of universal service. Under the TA-96, state commissions are responsible for the development of intrastate funding mechanisms that are specific, predictable and sufficient; determination of the manner in which all intrastate carriers must contribute to intrastate universal service; designation of the Intrastate Essential Telecommunications Carriers ("ETC");[21] determination of the discount for intrastate universal services, which are included in the federal definition of universal service, provided to elementary/secondary schools and libraries; establishment of cost allocation rules, accounting safeguards and guidelines for intrastate services to ensure that noncompetitive services do not bear an unreasonable share of joint and common costs; and definition of "service area" for the purposes of determining universal service obligations and support mechanisms for areas not served by rural telephone companies.

The Executive Committee Report submitted in the Commission's local exchange competition case, Cause No. 39983, contains discussion of universal service issues, which needs to be coordinated with the work currently being done by the Federal-State Joint Board and any future FCC orders on universal service. (The Joint-Board must file its recommendations with the FCC in November, 1996; the FCC plans to issue its implementation order in May, 1997.) The Commission, therefore, intends to continue to monitor and participate as necessary in universal service activities.

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[21] The TA-96 defines the ETC as a common carrier of services included in the federal universal service definition. Only ETCs are eligible to receive federal universal service support.

V. OPPORTUNITY INDIANA - SECOND YEAR RESULTS

Background

On June 30, 1994, the Commission issued an order in Cause No. 39705, approving a series of settlement agreements between Ameritech Indiana and various parties in response to an alternative regulation plan filed by Ameritech Indiana pursuant to IC 8-1-2.6. As set forth in the order, Ameritech Indiana received increased regulatory flexibility through December 31, 1997 with respect to the provision and pricing of its telecommunications services. The plan is commonly referred to by the company as "Opportunity Indiana."

Rate Reductions

Under the terms of the settlement agreements approved by the Commission as part of the Opportunity Indiana plan, Ameritech has continued to reduce its rates for both residential and business customers. During the past year the company phased out the charge residential and single-line business customers pay for intrastate access to long distance companies by implementing the last two-steps in the four-step two-year plan. This charge was also reduced for multi-line business customers. The rate reductions were as follows: intrastate access charges (end user common line charge) reduced 42 cents on January 1, 1996 and 41 cents on June 1, 1996.

Tariff Filings

Since the adoption of Opportunity Indiana, Ameritech has made 245 tariff filings under the flexible regulatory scheme. Of these filings, 102 were associated with the rates and charges contained in the local exchange tariffs, while the remaining 143 affected access rates and charges.

Ameritech used its regulatory flexibility to respond more quickly to competition and customers. Making changes in a day rather than having to wait 30 days or more allows the Company to meet customer demand, grow its business and generate more revenue. Many of the filings allowed Ameritech Indiana to make special offers to customers and to quickly introduce new services.

<u>Infrastructure and Education Investments</u>

Ameritech continued its commitment of investment in infrastructure to provide advanced services throughout its service area in order to reach every interested school, hospital and major government center. Also, Ameritech shareholders continued their support of the educational community by the contribution of $5 million last year, of their $30 million total commitment, to an independent non-profit organization, the Corporation for Educational Communications (CEC).

CEC provides grants for the planning, development, deployment and effective use of interactive distance learning and other advanced communications services that enhance the quality and availability of education in Indiana. The CEC is aggressively implementing a plan to support the offering of switched interactive video distance learning (VDL) service to every accredited public, private and parochial school that serves grades 7 through 12 and is located in Ameritech's Indiana service area. Schools must be accredited by the State Department of Education. In addition, grants may be awarded to those who provide educational programming for use on the interactive video distance learning network, such as universities, cultural organizations and others. Grants may include funding for such components as planning, hardware, wiring, network usage and content development.

CEC's goal is to help improve the quality, availability and economics of classroom instruction and thereby assist the State in meeting important educational objectives. Interactive video distance learning is an equalizer that reduces the limitations of geography. It allows sharing of special or advanced courses/labs through multi-school collaboration; encourages participation in university classes; permits visual field trips to museums, zoos, businesses and other cultural institutions, while at the same time offering job training, adult education classes and electronic town meeting opportunities to the local community.

Participating schools are building the VDL network based on the needs of the students and teachers. Classes such as Russian, Japanese, German, Latin, Finite Math and Advanced English are offered at school sites in Bloomington, Crawfordsville, Crown Point, Indianapolis, Muncie, New Albany and Whiting. Content is currently available on line from locations including the Indianapolis Zoo and Museum of Art and the Children's Museum of Indianapolis. To date, more than 90 educational institutions have taken advantage of the opportunity to bring advanced communications links to their locations. Schools in Evansville, Kokomo, South Bend and other areas are soon expected to be added to the VDL network.

Opportunity Indiana has helped bring advanced fiber optic networks to many rural areas in the state. Communities such as Charlestown, Elwood, Ladoga, Rockport and Sheridan have fiber construction completed or underway. Indiana has become one of the national leaders in the use of an emerging technology in the classroom, providing Indiana youth, no matter where they live, with new opportunities.

See Appendix V-A for a list of milestones for Infrastructure and Education Investments.

Free Subscription Program

In order to foster the goal of universal service, the Opportunity Indiana Plan provides that Ameritech Indiana will waive certain nonrecurring charges associated with initiating telephone service (customer deposit, line connection charges, and service order charges) for new customers living in geographic areas with below-average telephone service penetration rates, during a preselected 30-day period each year (through 1997). The initial waiver was offered to 42,000 potential customers in November 1994 and attracted 1,516 new subscribers (approximately 3 1/2%). There were no additional eligibility requirements beyond this residency requirement, such as household or personal income, receipt of public assistance income, etc.

As of May 31, 1995, 6 months after the free subscription was offered, 360 or 24%, of the 1,516 customers that initially received local service under the plan either discontinued service or were disconnected by Ameritech. One year later or 18 months after these customers started service under the plan (May 31, 1996) 1,065 customers or 70% no longer had local telephone service. See Appendix V-B for detailed results.

Free subscription was again offered in November, 1995, which resulted in 237 new subscribers. Through May 31, 1996, 94 or 40%, of those customers either discontinued service or were disconnected by Ameritech. See Appendix V-B for detailed results.

VI. EXTENDED AREA SERVICE (EAS)

Extended Area Service (EAS) is telephone service that allows persons in a given exchange to place and receive calls from a different exchange without an additional toll charge. Most existing EAS areas have evolved over the years based on community of interest and have been in place for many years. The costs to provide existing EAS services have been included in averaged local rates so there is generally no additional monthly cost to the customers of the exchange for their toll-free calling areas.[22]

As time passed and communities changed and grew, customers' calling needs also changed and grew. The Commission received increasing numbers of inquiries from telephone customers who were dissatisfied with their toll-free calling areas. Many calling areas did not (and do not) conform to county boundaries, school districts, etc. Many customers were not (and are not) able to call law enforcement or emergency services without incurring toll-charges. For a period of time, the IURC had no program to address the needs of these customers, and local telephone companies were not initiating changes in EAS areas. In response to this growing need, the Commission drafted administrative rules establishing a process to implement new EAS, which were approved in 1986 and are found at 170 IAC 7-4, et. seq.

The IURC administers these rules, which are designed to provide customers in telephone exchanges the opportunity to determine if toll-free calling will be established between those exchanges. To initiate this process, customers submit a petition (signed by the greater of 10% or 100 customers of the exchange)

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[22] GTE North, Inc. has a separate EAS cost recovery component called an EAS Adder that was initially approved in the Final Order in Cause No. 36452 on December 16, 1981. The EAS Adder was limited to existing customers ("grandfathered") on July 22, 1992 because of unanticipated results when the EAS Adder was applied in the development of cost of service studies under the Commission's EAS Rules.

requesting toll-free calling to another exchange. Upon receipt of such petition, the Commission orders the involved telephone company (or companies) to conduct a study of the calling patterns between the two exchanges. If the results of those studies indicate sufficient calling being made by the customers of the exchanges in accordance with IURC rules, the IURC then orders the telephone companies to conduct studies to determine the cost (capital investment, operating/administrative expenses and lost toll revenues) of establishing toll-free calling between the exchanges. The IURC must review and approve all studies before issuing orders on those studies. The telephone companies are then ordered to ballot the customers of the exchanges by mail to determine if the customers are willing to pay an additional monthly rate to have unlimited toll-free calling between the exchanges. A simple majority of the voting customers determines if the toll-free calling is established for the entire exchange.

The EAS program has met with considerable customer interest; however, a limited number of EAS petitions have been implemented. Since 1986, the Commission has processed 132 petitions; however, only 13 have been implemented. There are a variety of reasons why petitions fail. Many times, studies of the calling patterns do not meet the program's minimum criteria, which would indicate insufficient calling and lack of real community of interest. Other times, the cost of establishing the service is high, and customers vote against it. To minimize rate and revenue impact on the customers and the utilities, the rules allow for recovery of EAS costs over a five-year period. Customers who live in the exchanges where EAS is implemented pay a monthly surcharge on their bills for five years to cover the cost of establishing the EAS. The EAS cost components (capital investment, operating/administrative expenses and lost toll revenues) included in the rates can be expensive. Moreover, many of the exchanges involved in the process are very small, and the resulting cost per customer is high. These factors can lead to the requested service being cost-prohibitive.

For customers who are unable to benefit from the EAS program but still express a need for toll-free calling areas, there is a discounted toll calling plan, Optional Community Calling Plan, that has been in effect since 1992. Additionally, during the past year, the Commission approved a second discounted toll calling plan, Enhanced Optional Community Calling Plan, and a trial optional local calling plan.

A. OPTIONAL COMMUNITY CALLING PLAN (OCCP)

Indiana Bell Telephone Company, Inc. introduced a new optional discounted toll calling plan, called Optional Community Calling Plan (OCCP) on December 1, 1992. The plan was developed by a committee of representatives of the Local Exchange Companies (LECs) in Indiana in response to concerns expressed by members of the Indiana Legislature over community of interest calling. The plan allows customers of concurring LECs to call, within the Local Access Transport Area (LATA), to adjacent exchanges and to the county seat exchange of the county in which the customer's serving central office is located, within the State of Indiana. All LECs in Indiana concurring in Indiana Bell's tariff offer this service to their subscribers.

Following are the rates and charges for the plan:

Optional Community Calling Plan	Monthly Rate	Overtime Minutes
- One-half hour of calling	$ 1.50	$ 0.05/minute
- Two hours of calling	$ 5.00	$ 0.04/minute

Because calling patterns differ between individual customers, the OCCP does not alleviate all community of interest calling concerns. However, the OCCP is intended to alleviate many of them.

Subscribership to the OCCP has been disappointing; as of December 31, 1995, only 10,441 access lines of an eligible

1,976,611 lines, or 0.53%, were signed up for the plan.[23] (See Appendix VI-A for OCCP subscribership by LEC.)

B. ENHANCED OPTIONAL COMMUNITY CALLING PLAN (ENHANCED OCCP)

On June 21, 1996, the Commission issued an order in Cause No. 40097,[24] approving a second optional discounted toll plan, Enhanced Optional Community Calling Plan (Enhanced OCCP). The purpose of the Enhanced OCCP is to address the situations in which it had been determined that there is a high community of interest between two exchanges, but the exchanges are not eligible to use the existing OCCP.[25] The Enhanced OCCP will be offered in non-OCCP eligible communities that have petitioned for EAS and have met the Community of Interest requirements, but have failed to establish EAS based on the customer survey. Rates for the Enhanced OCCP are as follows:

Enhanced OCCP

	Monthly Rate	Overtime Minutes up to 10 hours	Overtime Minutes over 10 hours
<u>Plan A</u> one-half hour calling	$2.00	$0.07/minute	applicable toll rates
<u>Plan B</u> two hours calling	$8.00	$0.07/minute	applicable toll rates

Calling is available under this plan on a seven-day, 24-hour period. There is a limit of ten hours per month usage at the reduced rates, based on an analysis of calling data for subscribers

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[23] This compares to last year's subscribership of 10,521 access lines of an eligible 1,885,033 lines, or 0.56%.

[24] <u>See In re: the Matter of the Investigation on the Commission's Own Motion Into Any and All Matters Relating to Extended Area Service, As Defined by 170 IAC 7-4 Et Seq.</u>, approved June 21, 1996.

[25] Most often, the ineligible EAS routes do not involve adjacent exchanges, a requirement of the OCCP.

to the OCCP. A review of the minutes of use for current OCCP subscribers revealed that 96% of customers currently subscribing to the OCCP had less than ten hours of use per month.

To qualify for the Enhanced OCCP on a going-forward basis, customers will use the same initial steps as are used for the EAS program. If a sufficient community of interest exists, customers in the petitioning exchange will qualify for the Enhanced OCCP to the petitioned-for exchange. However, the petitioners will still have the opportunity to pursue flat rate EAS, if desired. If flat rate EAS is established, there will be no need to effect the Enhanced OCCP. Should the EAS petition fail based on the results of the customer survey, the Enhanced OCCP will be offered as an alternative to the petitioning customers.

Enhanced OCCP will not be available for those customers with a qualifying community of interest, if that community of interest crosses LATA boundaries. The interexchange carriers (IXCs) that would be involved in these types of interLATA routes declined to participate in the Enhanced OCCP.

C. GTE LOCAL CALLING PLAN

On April 9, 1996, GTE North, Inc. (GTE) submitted a proposal to initiate a 12-month trial of an optional EAS calling plan, entitled the GTE Local Calling Plan (LCP), to replace existing intrastate, intraLATA message toll calling charges between certain GTE exchanges. The LCP provides an optional local calling plan between GTE exchange areas in the Terre Haute LATA where EAS calling does not presently exist, but where there is a community of interest of at least 1.5 calls per customer account per month. (To be eligible to petition for non-optional flat-rated EAS under the IURC's existing EAS Rules, the minimum community of interest is 3 or more messages/customer account/month and 50% or more of the customers make 3 or more messages/customer account/month.)

The LCP uses 7-digit dialing, is accounted for as local service, and is available to both business and residence service classes with the following exceptions: Residence 2 and 4-party service, Public or Semi-public service, Customer Owned Pay Telephone Service or Foreign Exchange Service.

The LCP consists of three optional calling plans from which customers may choose. See Appendix VI-B for details.

Service charges will be waived for those customers subscribing to a LCP option, changing between LCP options, or converting back to message toll service within 6 months immediately following the beginning of the trial period, which GTE anticipated would begin within 120 days of Commission approval. GTE will survey customers during this time to see if they are interested in participating in a LCP option. A positive response will be required to implement customers' choices.

The Commission approved the LCP 12-month trial on May 30, 1996, under the condition that GTE file informational reports at 6 and 12-month intervals so the trial may be monitored and evaluated.

VII. QUALITY OF SERVICE

A. INTRODUCTION

The telecommunications network is an integration of copper wires, fiber optics, digital switches, mainframe computers, software, etc. that usually runs flawlessly 24 hours a day. This vast network was built primarily under a single monopoly, AT&T, along with a host of independent companies. As a result of the Modified Final Judgement (MFJ), January 1, 1984, the Bell Operating Companies (BOCs) were divested from AT&T. After the MFJ, each state commission continued to regulate all LECs under traditional rate base and rate-of-return regulation. Under this system, a company is offered a chance to earn a set rate-of-return in exchange for a monopoly territory and certain quality of service standards.

Two major forces are altering the traditional regulatory framework. First, telecommunications companies in Indiana may apply for alternative regulation. Second, the Commission is in the initial stages of allowing competition within the local exchange. These two forces have called into question whether the high level of quality of service customers have received will remain intact. The Commission believes quality of service will become an increasingly important component of telecommunications regulation.

This section examines the methods used to oversee quality of service, examines quality of service under incentive regulation and competition, examines data taken from the Consumer Affairs Division of the Commission and from reports filed with the Federal Communications Commission, provides a general report on quality of service from the other states in the five-state Ameritech region, and finally makes recommendations that will maintain or improve the high quality of service residents of Indiana have come to expect.

B. METHODS USED TO OVERSEE QUALITY OF SERVICE

Quality of service contains two components: technical aspects of the telecommunications network and customer service provided by a telecommunications company. In general, three methods can be used to oversee quality of service: industry standards, government agency controls, and competitive forces. In telecommunications there are certified industry bodies such as the International Telecommunication Union, Bellcore, the National Electrical Safety Code, and the American National Standards Institute that set standards governing telecommunications equipment such as digital switches. These standards form the basis for the technical aspects of the telecommunications network.

The Indiana Administrative Code (IAC) Title 170 Article 7 governs both components of quality of service. It is "intended to result in the provision of reasonable quality telecommunications services to the public, and to establish the obligations of both the utility and the consumer."[26] The technical aspects of the telecommunications network covered in the IAC include grade of service, maintenance of service, interruption of service, adequacy of service, and transmission requirements.[27] The customer service aspects covered in the IAC include operator services, the number of days when a customer should receive service, answering times, billing, and customer complaints.[28]

C. QUALITY OF SERVICE UNDER INCENTIVE REGULATION

Telecommunication companies in Indiana can petition the Commission "to decline to exercise, in whole or in part, its

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[26] 170 IAC 7-1.1-1 Sec. 1 (A).

[27] 170 IAC 7-1.1-11 (C), (D), (E), (F), and (G).

[28] 170 IAC 7-1.1-7 (A), (B), (C); 170 7-1.1-11 (A); 170 IAC 7-1.1-11 (H); 170 IAC 7-1.1-12 and 170 IAC 7-1.1-13; and 170 IAC 7-1.1-17.

jurisdiction over telephone companies or certain telephone services."[29] In June, 1994, under Cause No. 39705, Ameritech Indiana gained increased regulatory flexibility through a plan referred to as "Opportunity Indiana." As part of the stipulated agreement certain of Ameritech Indiana's basic local service rates were capped and the end-user common line charge was phased out in four steps.

In theory, a price cap may have detrimental effects on quality of service. Under a price cap, if a firm maximizes profits it may choose suboptimal quality of service; any cost reductions from reducing quality of service are kept by the firm thereby increasing profits. Furthermore, if the cap is fixed and firms cannot raise rates, they are not rewarded for quality of service improvements.[30]

Empirical studies of AT&T (1992) and the BOCs (1993) show no evidence that price caps have a detrimental effect on quality of service.[31]

D. QUALITY OF SERVICE UNDER LOCAL EXCHANGE COMPETITION

Indiana, as other states, is opening local exchange markets to competition. Competition may affect each component of quality of service differently. Competition brings a host of problems in terms of the technical aspects of the telecommunications network. For example, local exchange competition hinges on a new carrier's

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[29] IC 8-1-2.6

[30] Vivian Davis, Larry Blank, David Landsbergen, Nancy Zearfoss, Raymond Lawton, and John Hoag, Telecommunications Quality of Service, NRRI, Columbus, Ohio, March 1996, at 150.

[31] Donald J. Kridel, David E.M. Sappington, Dennis L. Weisman, "The Effects of Incentive Regulation in the Telecommunications Industry: A Survey," Journal of Regulatory Economics, Volume 9, 1996 reporting results from Timothy Tardiff and Lestor Taylor, "Telephone Company Performance Under Alternative Forms of Regulation in the U.S.," National Economic Research Associates, September 7, 1993 and Federal Communications Commission, CC Docket No. 92-134, Notice of Inquiry, "Price Cap Performance Review for AT&T," Released July 17, 1992.

ability to interconnect with the incumbent local exchange carrier. Connecting databases, computer hardware, and central offices may result in a decrease in network reliability.

One question raised by the Executive Committee in Cause No. 39983 (the Commission's investigation into local exchange competition) is whether equal technical standards should be set for all new carriers. All participants on the Technology Subcommittee believed new entrants should incorporate all existing and evolving quality of service standards.[32] It recommended the following requirements are technically feasible and can be provided by all carriers in a competitive environment: "intra-company testing procedures, intercompany testing procedures, load simulations (in a testbed environment), stress to failure testing (in a testbed environment), conformance testing with interconnecting networks, and the identification/disclosure of defined standards and specifications."[33]

As a market control, competition, if successful, can offer higher quality of service in customer services. AT&T claims competition will bring improved product quality in the fashion of simplified billing procedures, additional service options, and a more timely handling of complaints and repairs.[34] But competition in the local exchange will not occur in all regions or affect all types of customers simultaneously. Companies may divert resources into the more highly competitive area or the more sought after customers, leaving others with relatively lower quality of service.

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[32] Technology Subcommittee Report to the Executive Committee in Cause No. 39983, August 31, 1995 at 26.

[33] Id.

[34] AT&T Position Paper to the Executive Committee, November 8, 1995 in Cause No. 39983, at 2.

To counter this potential problem, participants on the Executive Committee in Cause No. 39983 drafted a Consumer Bill of Rights, which in part states:

> All consumers will have access to service which meets or exceeds quality of service standards promulgated by state and federal regulators. At a minimum, the quality of service for a new entrant shall be no less than the quality of service required by the Commission to be provided by the incumbent local exchange carrier. All consumers will be seamlessly and fully interconnected regardless of provider(s). No consumers will have to change their telephone numbers solely as a result of changing providers within their local exchange area.[35]

However, Sprint/United "believes a quality of service requirement is inappropriate, as the market will decide the level of quality it demands."[36]

Some companies agreed that new entrants should be subject to the same customer protection governed in the IAC as is currently applied to incumbent LECs.[37] Sprint/United said, "since new entrants lack market power, common customer protection standards are not necessary. Imposing the administrative burdens is disproportionately costly to new entrants."[38] "AT&T proposed that new entrants should comply with the same consumer protection and privacy requirements that are observed by long distance service providers."[39]

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[35] Final Report of the Executive Committee in Cause No. 39983 filed January 16, 1996, Consumer Bill of Rights, at 2.

[36] Id., at footnote 9.

[37] Regulatory Subcommittee Report to the Executive Committee in Cause No. 39983, November 15, 1995, at 69.

[38] Id. at 69, footnote No. 58.

[39] Id. at 69, footnote No. 59.

E. QUALITY OF SERVICE IN INDIANA AND OTHER AMERITECH STATES

1. Data Gathered from the Consumer Affairs Division

Among its duties, the Consumer Affairs Division of the IURC receives complaints about telephone service from residents of Indiana. The complaints they receive include high bills, billing disputes, disconnections of service, service problems, installation problems, and requests for deposits. Installation and service complaint data from that division's records are shown for Ameritech Indiana, GTE North, and Sprint/United on Appendix VII-A.[40] The data is beginning to show a trend that may be of concern. In 1993 Ameritech Indiana had 1.16 service complaints per hundred thousand lines and in 1995 that number rose to 4.06. Similarly, in 1993 GTE North had 4.06 service complaints per hundred thousand lines and in 1995 that number rose to 9.63.[41] The trend for installation problems is not so clear.

2. Data Gathered from ARMIS Reports

All the Bell Operating Companies, GTE Operating Companies, and many smaller telecommunications companies file Automated Reporting Management Information System (ARMIS) reports with the Federal Communications Commission. These reports include financial data and quality of service data. The quality of service data includes reports on installation and repair intervals for switched access (interexchange carriers) and local service, trunk blockage, switch downtime, customer satisfaction survey, dial tone response, and transmission quality. This section focuses on installation and repair intervals for switched access and local service for GTE and

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[40] The IURC has complaint data from small LECs, but the number is so small it distorts the graph.

[41] Data from GTE North contains the service and installation problems from Contel of Indiana, Inc.

Ameritech companies in the five-state Ameritech region (Indiana, Ohio, Illinois, Michigan, and Wisconsin) from 1991 to 1995.

Two measures track quality of service between the LEC and interexchange carrier: the percent of total commitments met for switched access (a certain period of time to gain switched access) and total switched access repair trouble reports. Appendix VII-B, Page 1, shows the percent of total commitments met for switched access by Ameritech companies. Until the first quarter of 1994, the percent hovered around 100, but percent commitments fell below 75 in the second quarter of 1995 for Ameritech Indiana. The other Ameritech companies saw a similar degradation of service for switched access. A similar pattern can be seen for GTE companies on Appendix VII-B, Page 2. GTE Indiana had a relatively high percentage of total commitments met for switched access until the second quarter of 1995 when the percent fell to 85.

Another measure of quality of service between the LEC and interexchange carrier is repair trouble reports. The data from total switched access repair trouble reports on Appendix VII-C, Page 1 and Page 2 does not show a degradation of service. Ameritech Indiana has had a low number of repair trouble reports and except for a "blip" in the second and third quarter of 1991, GTE Indiana has also had a low number of repair trouble reports.

To track customer quality of service, this section examines two variables: percent of commitments met for total (business and residential) installation orders and total initial trouble reports. Appendix VII-D, Page 1 shows Ameritech Indiana has had a high percent (99%)of commitments met and Appendix VII-D, Page 2 shows GTE Indiana also having a high percentage (99%). In comparison, Ameritech Ohio has had a relatively poor record of percent commitments met in 1994 and 1995. In terms of total initial trouble reports, Appendix VII-E, Page 1 shows Ameritech Indiana has consistently done better than most of the other companies in the five-state region. Appendix VII-E, Page 2 shows GTE Indiana, like the other GTE companies, had a period of high total initial trouble reports in the fourth quarter of 1994 and second quarter of 1995, but the total has fallen.

3. General Report from Other States in Ameritech Region

While states throughout the country have had quality of service problems, this section focuses on only the other states in the five-state Ameritech region. Ameritech Illinois is having problems meeting 95 percent out-of-service repairs in 24 hours, standards for interoffice trunk traffic, standards for installation, and standards for installation of network interfaces.[42] Ameritech Wisconsin is having problems clearing out-of-service reports within 24 hours, repeat troubles where the company cannot locate the source of the problem, and problems reaching a live operator at the business office within a reasonable time.[43] In response to these problems, the Wisconsin Public Service Commission filed a lawsuit in Dane County Circuit Court against Ameritech Wisconsin for a diminution in quality of service in February, 1996. The case is still pending and Ameritech Wisconsin has filed a motion to dismiss.

Ameritech Ohio has had service problems with respect to the answer time in business offices.[44] The Public Utility Commission of Ohio proceeded with a Commission Order and Investigation of Ameritech Ohio's quality of service. The Public Utility Commission of Ohio and Ameritech Ohio negotiated a settlement agreement under

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[42] Vivian Davis, Larry Blank, David Landsbergen, Nancy Zearfoss, Raymond Lawton, and John Hoag, Telecommunications Quality of Service, NRRI, Columbus, Ohio, March 1996, at 59.

[43] Id., at 60.

[44] Id.

which Ameritech Ohio would pay a fine and be subject to future fines, if the problem was not resolved.

After seeing a pattern of deteriorating quality of service, utility commission staff's from the Ameritech states formed a committee to study quality of service with the ultimate goal of establishing common telephone quality of service standards across the five-state Ameritech region. The staff would like to agree on a set of measures, a standard for each measure, and an enforcement methodology. The report is in the intermediate stage and no completion date has been set.

F. OBSERVATIONS

1. Update Quality of Service Standards

Technological changes in the telecommunications industry, changing market structure, and changes in utility regulation require an update in the quality of service standards.[45] For example, the Commission does not have quality of service standards for interconnection agreements, an important component of local exchange competition.

2. Maintaining Quality of Service

Traditional regulation has worked effectively to assure quality of service. As the telecommunications industry moves away from rate-of-return regulation to incentive regulation and eventually competition, the Commission is concerned that the high quality of service residents currently receive be maintained. Quality of service standards cannot be effective unless utilities

[45] The Technology Subcommittee in Cause No. 39983 also made a similar recommendation. Technology Subcommittee Report to the Executive Committee, in Cause No. 39983, August 31, 1995, at 26.

have a persuasive incentive to follow them. Today, no mechanisms exist by which utilities can be given incentives to maintain high quality of service to all classes of customers in a more competitive telecommunications market.

VIII. 317 AREA CODE RELIEF PLAN

As is the situation throughout the United States, the supply of available telephone numbers in the 317 Number Plan Area (area code) has been decreasing because of the growth in the use of additional phone lines, cellular phones, fax machines, modems and pagers. If a new area code is not created, it is projected that the supply of available telephone numbers in the 317 area code will be exhausted by the third quarter of 1997. Last year, sixteen new area codes were introduced across the country and another twelve will debut in 1996.

On June 14, 1996, Ameritech Indiana, as the current Central Office Code Administrator[46] for the state of Indiana, submitted a 317 Area Code Relief Plan proposal to the Commission that had been developed by the Indiana Telecommunications Industry Team (Industry Team).[47]

The Industry Team's first meeting took place on December 12, 1995, and three alternative types of relief plans were initially reviewed and considered:

(1) Area Code Geographic Split Method: a given geographic area is divided into two, giving each its own area code.

(2) Boundary Realignment Method - adjacent area code boundaries are realigned to provide spare Central Office (CO) codes to the depleted area code.

[46] As Central Office (CO) Code Administrator, Ameritech Indiana coordinates the assignment of CO Codes, or NXXs, for all local telephone companies, cellular providers, paging companies, and alarm companies in the state of Indiana.

[47] All telecommunications providers of local, long distance, alarm, cellular and paging service in the effected 317 area code were notified by Ameritech Indiana of the pending exhaust of the 317 area code and the establishment of the Industry Team, which was charged with the task of developing an acceptable area code relief plan. In addition, the Office of the Utility Consumer Counselor participated in and several members of the Commission Staff observed the deliberations of the Industry Team.

(3) Overlay Method - a new area code in introduced within the same geographic area as the area code requiring relief.

The Industry Team continued to meet and discuss the pros and cons of the above three alternative types of relief plans for the 317 area code.[48] During the course of these meetings, the Industry Team decided to have a telephone survey of residence and business customers performed to determine any preferences Indiana customers might have regarding the alternative types of relief plans. The results of the telephone surveys indicated a customer preference for the Area Code Geographic Split Method over the Overlay Method. (The Boundary Realignment Method had been eliminated when it was determined by the Industry Team that such relief method would not provide sufficient area code relief to be considered a viable alternative.) In addition, the Industry Team conducted Community Forum Meetings on March 19 and 21, 1996, in four locations within the 317 area code. These locations included Lafayette, Marion, Indianapolis and Richmond. The purpose of these meetings was to give community leaders the opportunity to hear about the relief plans and ask questions.

The results of the surveys/meetings and the consensus of the Industry Team supported the adoption of what is called the "Indianapolis Metro" 317 Relief Plan. (See Map - Appendix VII-E) Under this plan, the Indianapolis telephone exchange and the telephone exchanges in Indianapolis's existing toll-free calling area will retain the 317 area code. The remainder of the telephone exchanges in the 317 area code will be assigned a new area code - 765. The supply of telephone numbers in the "new" 317 area code is expected to last eight years and fourteen years for the 765 area code.

[48] Meetings were held on December 12, 1995, January 17, 1996, February 2, 1996, and March 26, 1996.

The assignment of a new area code means that <u>all</u> telephone numbers in the affected exchanges will have to be changed to reflect the new area code. In order to prepare telephone customers for this change, the Industry Team has formed a Subcommittee to initiate the following customer education process: news releases to the media; bill insert and messages; advertising; a toll-free public information number; and information packets designed to assist businesses and various others in handling the transition to a new area code. Although the new 765 area code is scheduled to be operational February 1, 1997, there will be a permissive dialing period through June 27, 1997 that will allow affected customers to dial either the 317 or 765 area code, and the call will be completed. The 765 area code will become mandatory on and after June 28, 1997, for such customers.

The new area code will not increase customer telephone rates; calls that are currently local will be local after the 765 area code is implemented. However, some local calling areas will be split between the 765 area code and the 317 area code. In those areas a customer will be required to include the area code with the 7 digit phone number when dialing a local across area code boundaries.

In order to allow public review of the Industry Team's proposal and give an opportunity for comments, the IURC staff established a plan whereby a form of the Commission's existing "30-day filing" process would be used as the vehicle for examination of the area code relief plan. This process included Ameritech Indiana serving notice of its intent to file on all parties on the service list of Cause No. 39983, the investigation into local exchange telephone service competition, as well as each member of the Industry Team. Additionally, the Commission caused legal notice of filing[49] to be published in newspapers of general circulation in all affected counties in Indiana.

The 317 Area Code Relief Plan proposal was filed with the Commission on June 14, 1996; comments on the Plan are due July 1, 1996; reply comments of Ameritech Indiana are due July 8, 1996; the Plan is scheduled to be on the Commission Conference Agenda on July 17, 1996 for consideration.

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[49] Legal Notice of Filing, Opportunity for Submission of Comments, and Pending Action Concerning the Establishment of a New Area Code Within the Existing 317 Area Code.

IX. FINANCIAL INFORMATION

As can be seen in Appendices IX-A, IX-B and IX-C, the telecommunications services industry in Indiana represents a market with intrastate gross revenues for 1995 of $2.24 billion. This represents an increase of 10.72% over the 1994 level and a total 36.87% increase over the 1991 level. The compound annual growth rate during the 1991-1995 period was 8.16%. LEC intrastate operations accounted for $1.43 billion or 63.9% of the telecommunications gross intrastate revenues in 1995. The LEC's share of the total telecommunications's industry revenues has been gradually decreasing.

Facilities-based IXCs accounted for 14.92% of the gross intrastate telecommunications services revenues. AT&T COM's share of the IXC facilities-based intrastate gross revenues amounted to 68.0% in 1995 down from 70.6% in 1994 and 74.9% in 1991. Similarly, if the intrastate gross revenues of the facilities-based IXCs and the telecommunications services resellers and/or Alternative Operator Service (AOS) providers were to be combined, AT&T COM's share of gross intrastate revenues would have been 54.47% in 1995, down from 57.6% in 1994 and 60.2% in 1991.

Although telecommunications service reseller and/or AOS firms accounted for only 3.7% of the gross intrastate telecommunications services industry revenues in 1995, their market segment has a compound annual growth rate in revenues during the 1991-1995 period of 10.04%. The Commission exercises some regulatory oversight over approximately 246 reseller and/or AOS firms.

A similar trend can be observed in respect to mobile communications carriers (radio common carriers or RCCs, and cellular mobile communications carriers or CMCCs). Mobile communications carriers accounted for 17.5% of all intrastate telecommunications services gross revenues, up from 14.0% in 1994.

And their $390.7 million share grew at a compound annual rate of 33.18% in the 1991-1995 period. There are approximately 76 RCC and CMCC firms.

As demonstrated by Appendices IX-H and IX-I, Indiana LECs have continued to proceed with modernization programs in their telecommunications networks. As a result of such modernization programs, 85.09% of the LECs' access lines are served by fully digital central office (CO) switching equipment, e.g., Northern Telecom DMS100/200 or DMS10 switches. The corresponding portion of access lines served by fully digital CO switching equipment in 1991 was 61.23%. The "intermediate" switching technology of electronic analog CO switching equipment, e.g., Western Electric/ATTIS 1AESS and 2AESS switches, is still present at some of the major LECs that had invested in that technology. In contrast, numerous smaller LECs have replaced their analog electromechanical switches with fully digital CO switching equipment. Consequently, the proportion of LEC access lines that were served by electronic analog CO switching equipment dropped from 35.03% in 1991 to 13.79% in 1995. The additional benefit of investment in fully digital CO switching equipment has been that the proportion of Indiana LEC access lines served by "equal access" COs increased to 98.62% in 1995 (under "equal access" end-users are able to reach the networks of their preferred IXCs with simplified dialing such as "1+").

X. ACKNOWLEDGEMENTS

The Commission greatly appreciates and acknowledges the assistance of the Commission's staff in the preparation of this report. Due to the increased workload created by TA-96, it took an extra effort to produce a quality report. Special thanks goes to the following staff:

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Karl S. Henry, Senior Utility Analyst
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We are indebted to Brad Ramsey, Deputy Assistant General Counsel of the National Association of Regulatory Commissioners and Lee Palagyi, Telecommunications Specialist with the Washington Utilities and Transportation Commission for providing us with an electronic copy of "Telecommunications Act of 1996", What does it mean to the States?, prepared by the NARUC Committee on Communications, which was used in the preparation of this report.

XI. LIST OF APPENDICES

E . . . Total Initial Trouble Reports in Ameritech Region 1991-1995. (Page 1)

Total Initial Trouble Reports in GTE Region 1991-1995. (Page 2)

Appendix VIII

A . . . Map of proposed area code split.

Appendix IX

A . . . Intrastate Revenues 1991 & 1995 Industry Comparison.

B . . . Intrastate Revenues Industry Comparison.

C . . . Telecommunications Intrastate Revenues. (2 pages)

D . . . Rate of Return Data - Nine Largest Telephone Companies.

E . . . 1995 LEC Total Company Income Statement Data.

F . . . 1994 LEC Total Company Income Statement Data.

G . . . Total Income Statement - Four Largest LECs.

H . . . Total Switched Access Lines by Type of Central Office Switch.

I . . . Total Switched Access Lines by Type of Central Office Switch and Equal Access.

OPPORTUNITY INDIANA

INFRASTRUCTURE AND EDUCATION INVESTMENTS MILESTONES

June 30, 1994

IURC issues "Opportunity Indiana" Order in Cause No. 39705.

July 1994

Creation of not-for-profit corporation - the Corporation for Educational Communications (CEC) will dispense all grant funds.

September 1994

CEC conducted statewide Opportunity Indiana introductory meetings with school superintendents and Educational Service Center (ESC) Directors to announce the grant program.

November/December 1994

Development of Ameritech Indiana Market Support and Plan for Education, Health Care and Government, to stimulate demand for services that would utilize the advanced communications technologies mentioned in the Opportunity Indiana agreement.

December 1994

Educational grant requests submitted to CEC by eight ESC led planning clusters.

January 1995

CEC grant awards announced for the winning schools.

January/June 1995

Eighty two (82) schools and supporting organizations have been awarded grants.

May 1995

Start of construction to link all public high schools in Montgomery County to Ameritech Advanced Video Service.

June 1995

To date, twenty-seven (27) educational institutions have taken advantage of the Opportunity Indiana agreement by having Ameritech bring advanced communications technology to their locations.

CEC introduces a new grant program for teachers and approves $60,000 for teachers who are developing distance learning programs.

July 1995

CEC provides grant awards to fund coordinators in the following distance learning consortiums: Indianapolis, Muncie, Crawfordsville, Lake County and Bloomington.

October 1995

Start of construction planning to link three schools in Lake County.

November 1995

CEC Board votes to increase the size of the Board of Directors to include additional business leadership and a representative of the Indiana Telecommunications Association.

The CEC Board approved grants for an additional 64 schools from eight planning consortiums.

Ten colleges/universities and cultural organization grants have been approved since June 1995.

February 1996

CEC activates its internet web server, which provides program information to schools and other interested partners.

Start of construction planning to link eight schools in South Bend and two in Culver.

April 1996

St. Anthony Medical Center in Crown Point to install a two-way interactive distance learning network for providing medical education to area high schools. The network will also allow the hospital to connect to other hospitals and clinics for diagnostic and administrative purposes.

May 1996

CEC Board votes to expand the grant program beyond the Ameritech service area and to develop collaborative plans between schools and telecommunications companies. Funding partnerships will be actively developed.

The CEC Board has approved grants for 13 colleges/universities and cultural organizations since November 1995. Grants were approved for 81 teachers amounting to $74,000.

Grants for two additional coordinators were made for consortiums in South Bend and Southern Indiana (Jasper).

June 1996

To date, more than 90 educational institutions have taken advantage of the Opportunity Indiana agreement by having Ameritech bring advanced communications technology to their locations.

Opportunity Indiana has helped bring advanced fiber optic networks to the following rural communities: Charlestown, Elwood, Kingman, Ladoga, Marshall, Montpelier, New Market, Rockville, Rockport, Rosedale, Sheridan and Waveland.

1994 Free Subscription Offering Results
Through May 31, 1996

Description	Number of Accounts	% of Total Disconnects	% of Total 1,516 Subscribers
Total New Connects	1,516		
Disconnects:			
Customer Requested:			
Can Not Afford	19	1.78%	1.25%
Disaster	8	0.75%	0.53%
Moving	163	15.31%	10.75%
No Further Use	117	10.99%	7.72%
Total Customer Requested	307	28.83%	20.25%
Ameritech Action:			
Abandoned Service	29	2.72%	1.91%
Fraud	1	0.09%	0.07%
Non Payment	728	68.36%	48.02%
Total Ameritech Action	758	71.17%	50.00%
Total Disconnects	1,065	100.00%	70.25%
Customers Remaining on the Network	451		29.75%

1995 Free Subscription Offering Results
Through May 31, 1996

Description	Number of Accounts	% of Total Disconnects	% of Total 237 Subscribers
Total New Connects	237		
Disconnects:			
Customer Requested:			
Can Not Afford	2	2.13%	0.84%
Disaster	1	1.06%	0.42%
Moving	25	26.60%	10.55%
No Further Use	17	18.09%	7.17%
Total Customer Requested	45	47.88%	18.98%
Ameritech Action:			
Abandoned Service	3	3.19%	1.27%
Fraud	1	1.06%	0.42%
Non Payment	45	47.87%	18.99%
Total Ameritech Action	49	52.12%	20.68%
Total Disconnects	94	100.00%	39.66%
Customers Remaining on the Network	143		60.34%

OPTIONAL COMMUNITY CALLING PLAN (OCCP)
SUBSCRIBERSHIP AS OF DECEMBER 31, 1995

COMPANY	1/2 HOUR CALLING PLAN	2 HOUR CALLING PLAN	TOTAL LINES SUBSCRIBED	ELIGIBLE LINES	PERCENT SUBSCRIBED
AMERITECH CORP.	446	1,153	1,599	881,563	0.18%
BLOOMINGDALE HOME TEL. CO.	-	1	1	577	0.17%
CAMDEN TEL. CO.	7	92	99	841	11.77%
CENTRAL INDIANA TEL. CO.	5	3	8	2,925	0.27%
CINCINNATI BELL TEL. CO.	39	80	119	119	100.00%
CITIZENS TEL. CORP.	19	71	90	2,169	4.15%
CLAY COUNTY RURAL TEL.	89	235	324	7,310 *	4.43%
COMMUNIC. CORP. of IN.	124	49	173	8,169	2.12%
COMMUNIC. CORP. of S. IN.	-	4	4	1,905	0.21%
CONTEL of INDIANA INC.	164	657	821	165,413	0.50%
CONTEL of THE SOUTH (1)	58	119	177	9,491	1.86%
CRAIGVILLE TEL. CO.	26	21	47	836	5.62%
DAVIESS-MARTIN RURAL (4)					
FRONTIER COMM. of IN(2)	-	-	-	-	0.00%
FRONTIER COMM. of THORNTOWN(3)	-	-	-	-	0.00%
GEETINGSVILLE TEL.	1	5	6	461	1.30%
GTE NORTH	617	3,733	4,350	672,402	0.65%
HANCOCK RURAL	26	140	166	4,554	3.65%
HOME TEL. CO.	2	3	5	2,112	0.24%
HOME TEL. CO. of PITTSBORO	-	-	-	-	0.00%
LIGONIER TEL. CO.	-	-	-	1,773	0.00%
MERCHANTS & FARMERS TEL.	-	-	-	531	0.00%
MONON TEL. CO.	48	208	256	1,654	15.48%
MULBERRY (4)					
NEW LISBON TEL.	-	-	-	-	0.00%
NEW PARIS TEL. CO.	17	18	35	1,837	1.91%
NORTHWESTERN IN. TEL. CO.	-	-	-	1,796	0.00%
ODON TEL. CO.	23	36	59	1,565	3.77%
PERRY-SPENCER	43	70	113	4,783	2.36%
PULASKI-WHITE	21	25	46	1,817	2.53%
ROCHESTER TEL. CO.	5	28	33	6,926	0.48%
S & W	13	36	49	451	10.86%
S.EASTERN IN. RURAL TEL.	46	169	215	3,903	5.51%
SMITHVILLE TEL. CO.	112	477	589	25,399	2.32%
SUNMAN TEL. CO.	88	187	275	3,185	8.63%
SWAYZEE TEL. CO.	-	-	-	-	0.00%
SWEETSER TEL. CO.	-	-	-	-	0.00%
TIPTON TEL. CO.	2	2	4	4,564	0.09%
TRI-COUNTY TEL. CO.	-	-	-	-	0.00%
UNITED TEL. CO. of IN.	657	1,720	2,377	155,580	1.53%
WASHINGTON CO. (4)					
WEST POINT TEL. CO.	-	-	-	-	0.00%
YEOMAN TEL.	-	-	-	-	0.00%
TOTALS	2,252	8,189	10,441	1,976,611	0.53%

(1) Formerly ALLTEL

(2) Formerly Citizens Telephone of Fairmount

(3) Formerly Thorntown Telephone

(4) Did not respond to data request

* Excludes 996 exchange EAS to connecting exchanges.

GTE LOCAL CALLING PLAN

Community Calling Plan

Customers choosing this calling plan pay $1.08 per month plus applicable per minute usage charges based upon the rate band matrix, distance and time of day to those exchange areas indicated on the calling scope matrix.

Community Plus Plan

Customers choosing this calling plan pay $2.73 per month for unlimited calling to one exchange as indicated on the calling scope matrix. Any additional exchanges the customer may want to call on an incidental basis may be called at applicable per minute usage charges based upon the rate band matrix, distance and time of day.

Premium Plan

Residence customers choosing this calling plan pay $20.00 per month and business customers pay $100.00 per month for unlimited flat-rated local calling to all exchanges listed on the calling scope matrix.

The following rates and charges apply:

Rate Band Matrix

		Full Rate Period	
Distance Bands	Airline Miles	Set-up	Each Minute
A	1 - 10	$.03	$.04
B	11 - 16	$.03	$.05
C	17 - 23	$.04	$.07
D	24 - 30	$.04	$.08

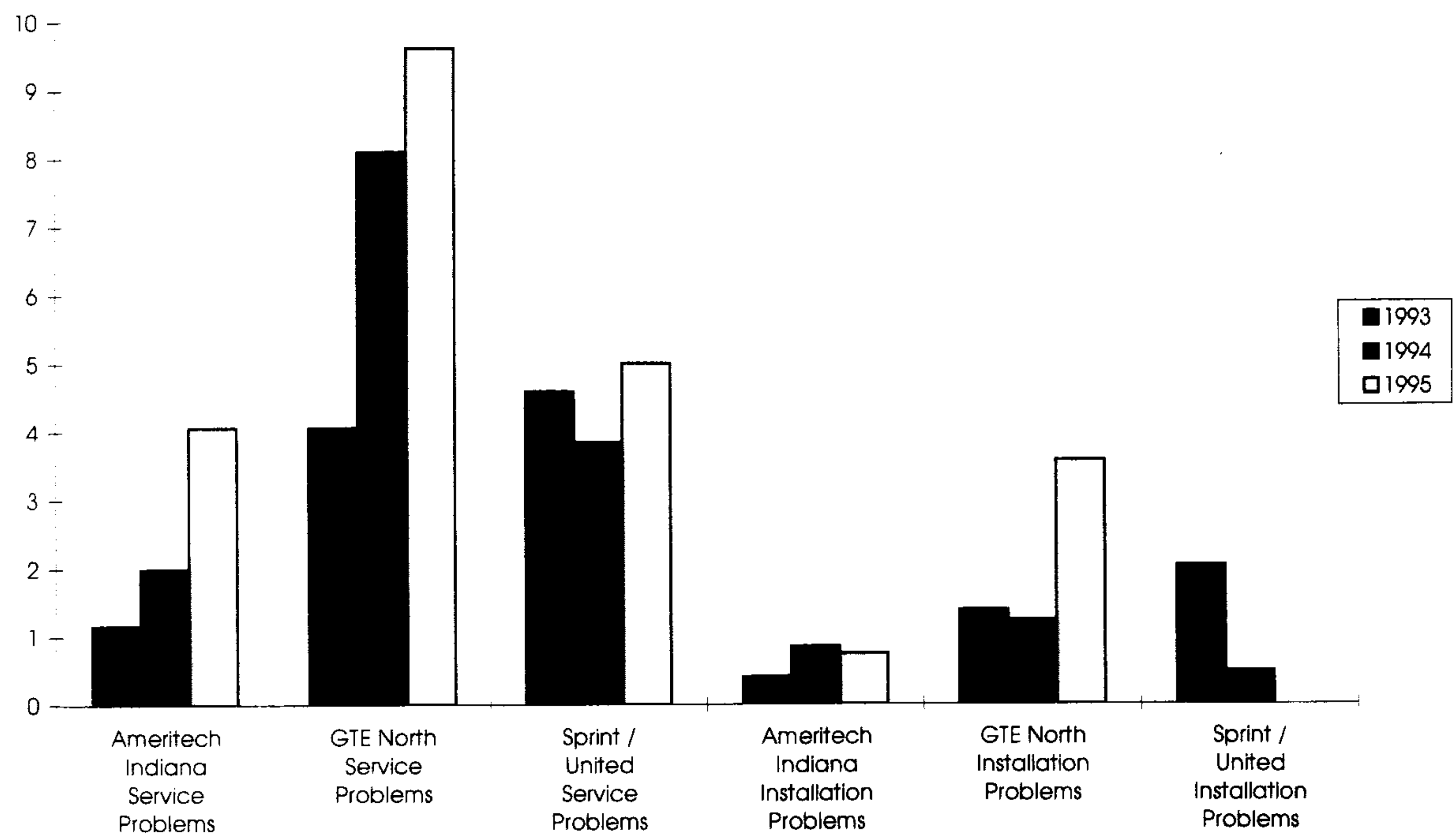
Local Call Detail

per month, plus	$1.50
each bill page	$0.10

The following discounts apply:

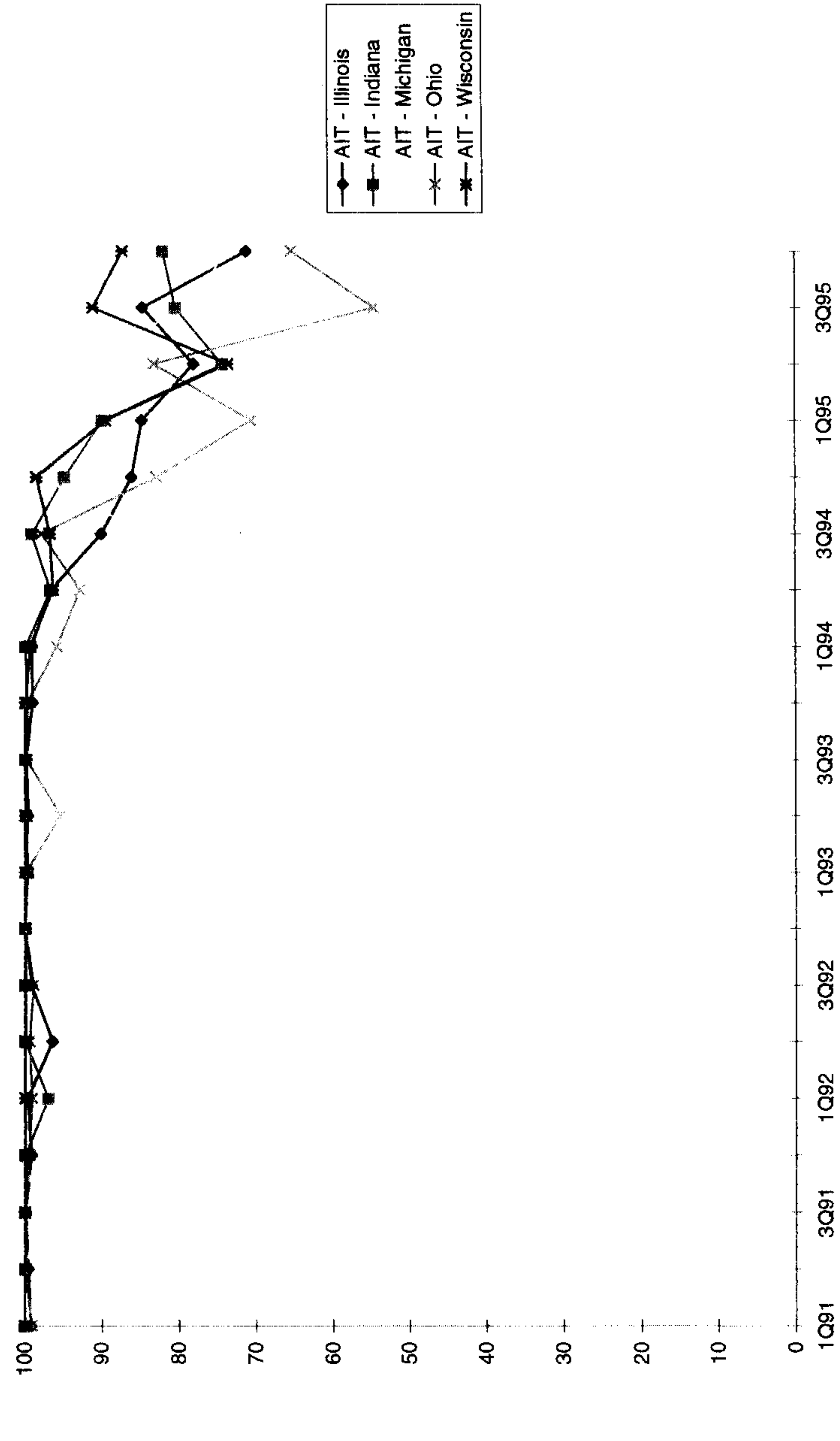
	From	Up to But Not Including	Discount
Everyday	9:00 p.m.	8:00 a.m.	40%
Saturdays, Sundays, and Certain Holidays	8:00 a.m.	9:00 p.m.	40%

Service and Installation Problem Complaints Per Hundred Thousand Lines Filed at IURC 1993-1995



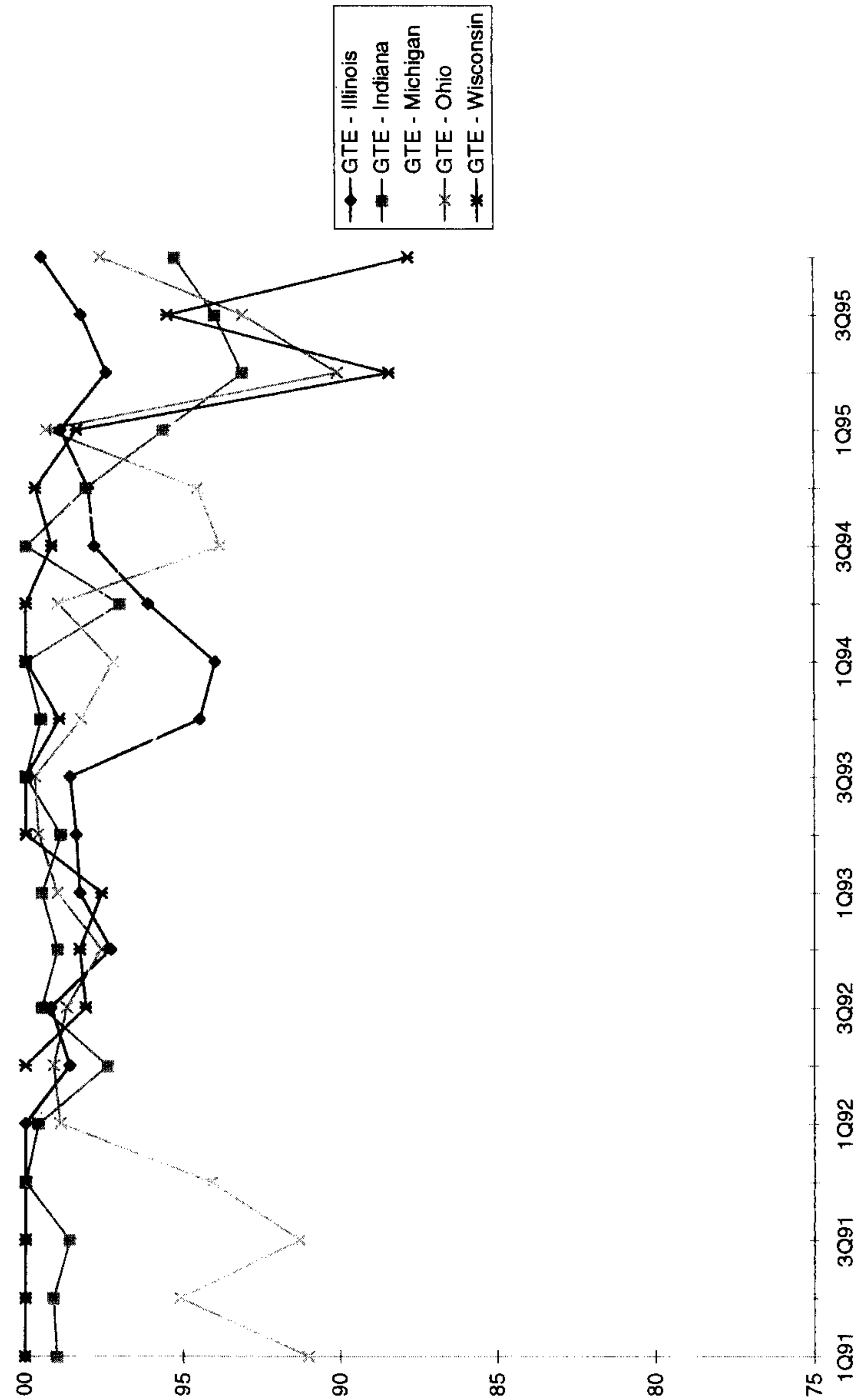
Note: Sprint/United had no Installation Problems in 1995

Percent of Total Commitments Met in Ameritech Regions for Switched Access 1991-1995



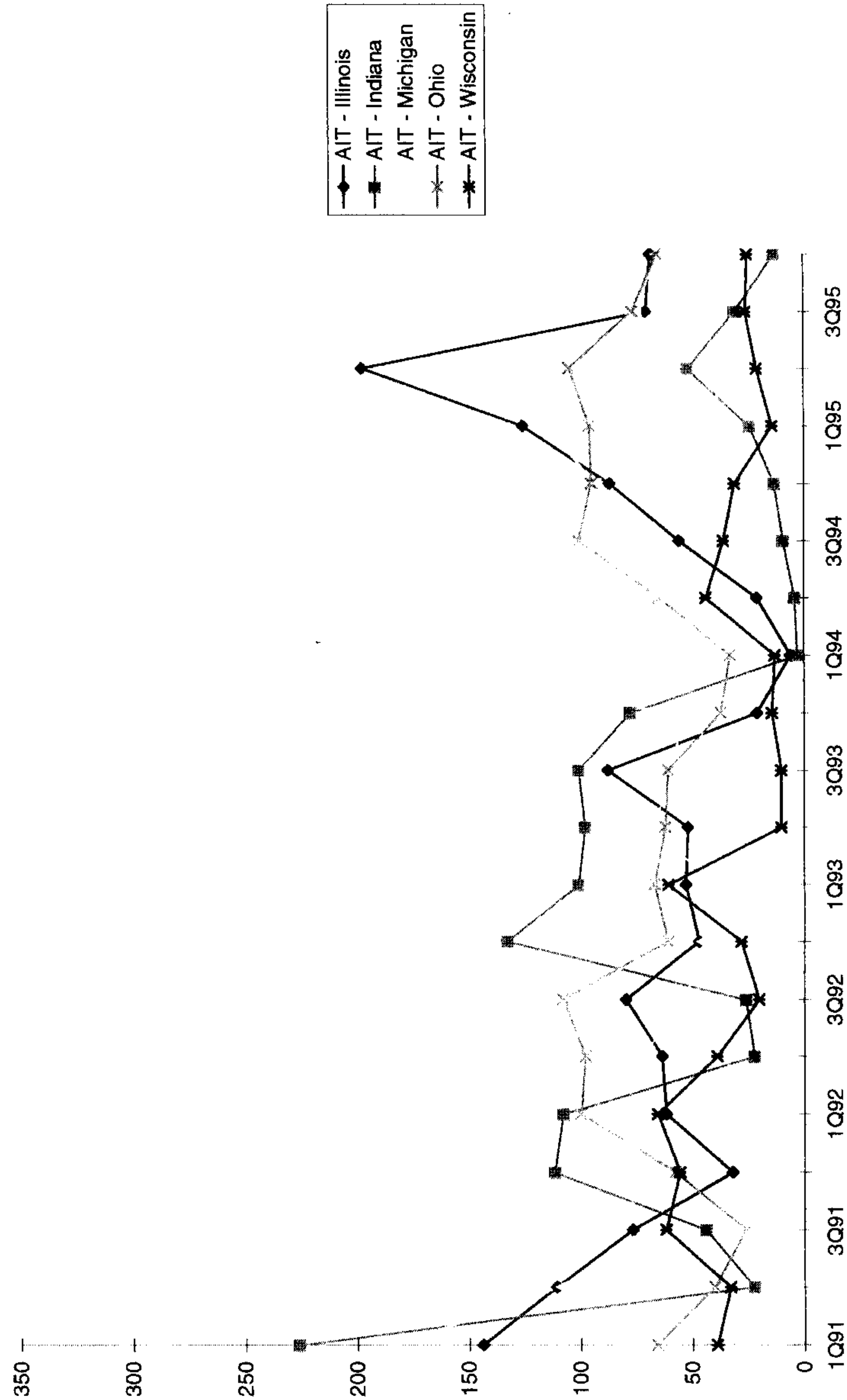
Source: Public Data Filed With FCC - ARMIS 43-05, Table I

Percent of Total Commitments Met in GTE Regions for Switched Access 1991-1995



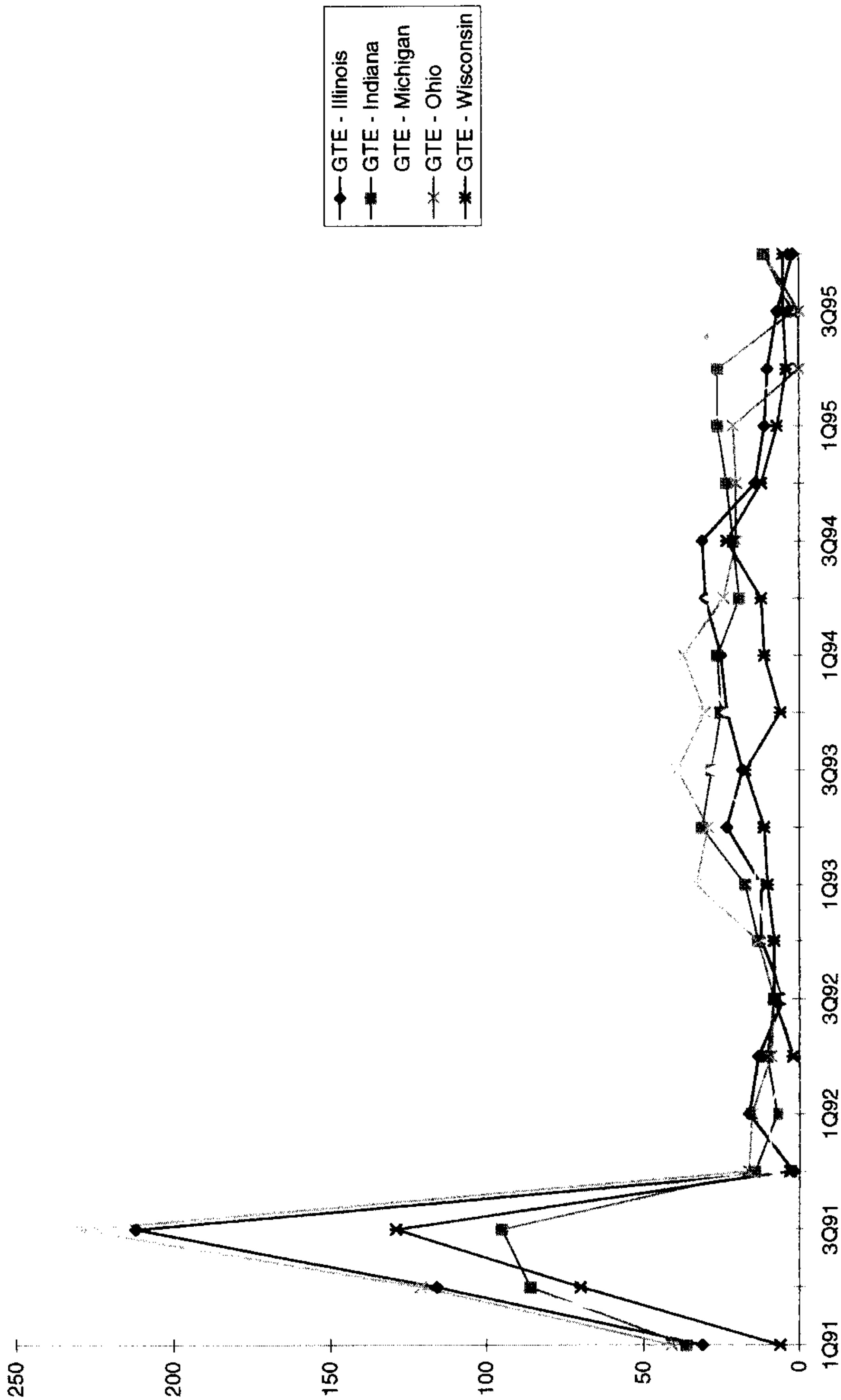
Source: Public Data Filed With FCC - ARMIS 43-05, Table I

Total Switched Access Repair Trouble Reports for Ameritech Regions 1991-1995



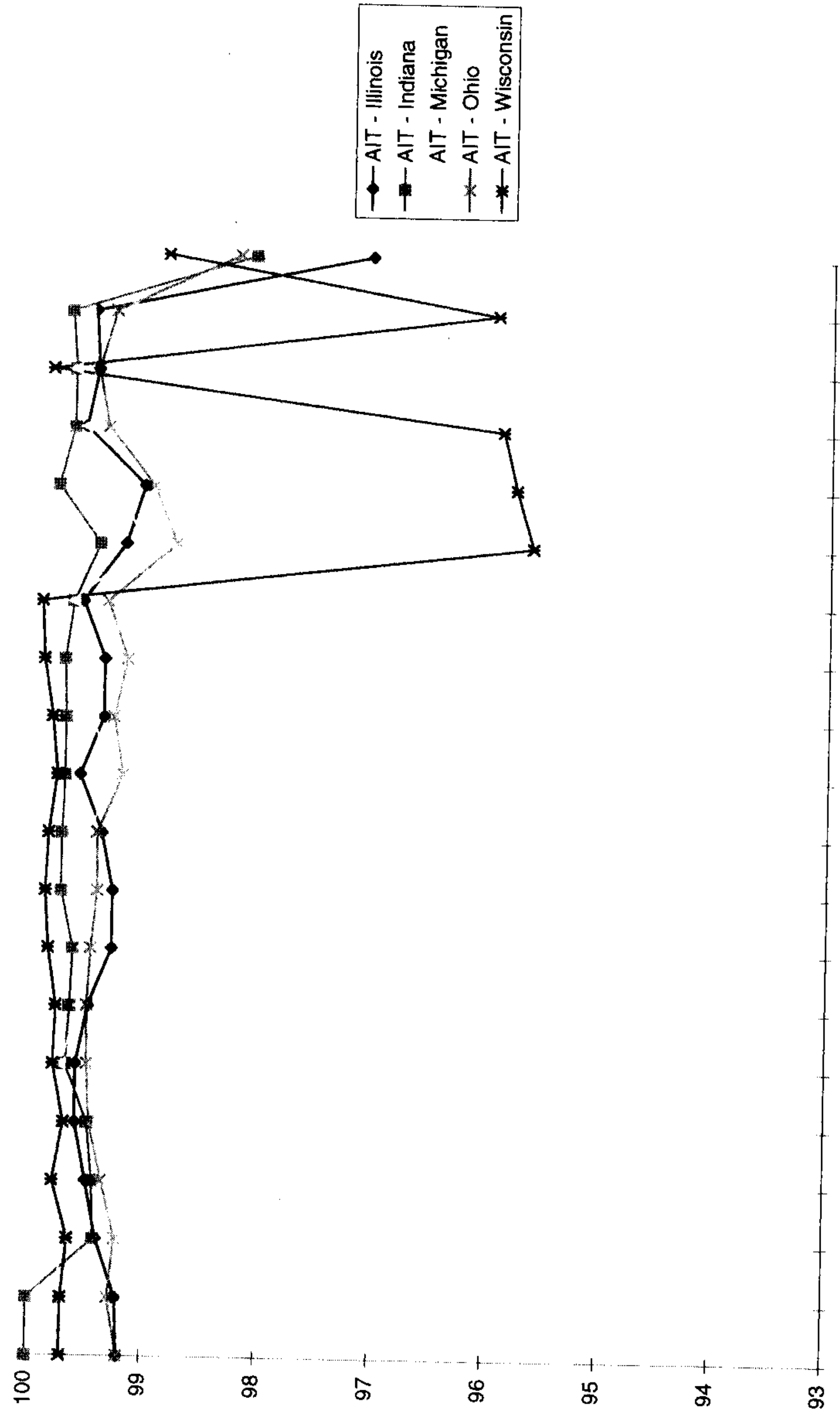
Source: Public Data Filed With FCC - ARMIS 43-05, Table I

Total Switched Access Repair Trouble Reports for GTE Regions 1991-1995



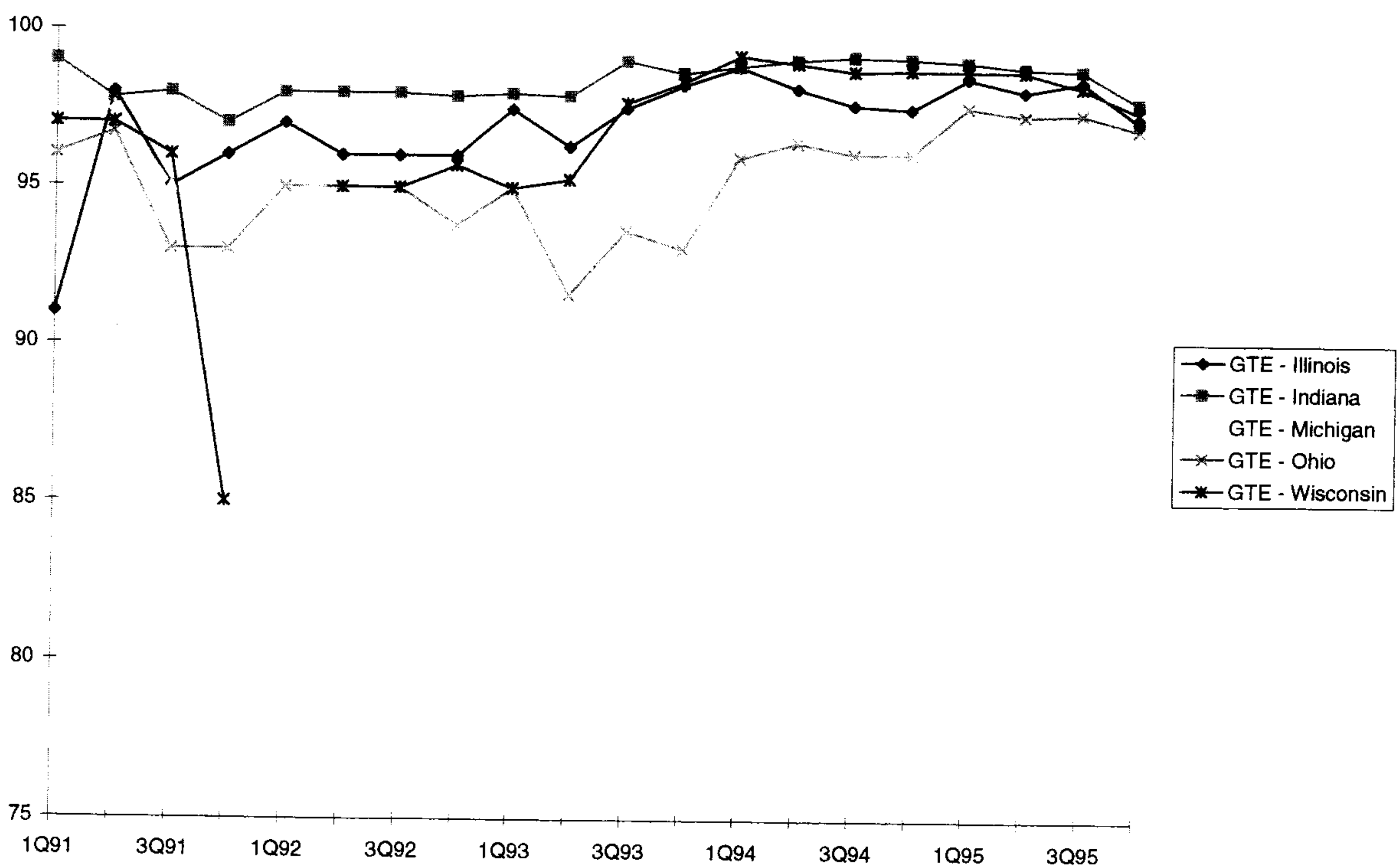
Source: Public Data Filed With FCC - ARMIS 43-05, Table I

Percent of Commitments Met for Total Installation Orders in Ameritech Region 1991-1995



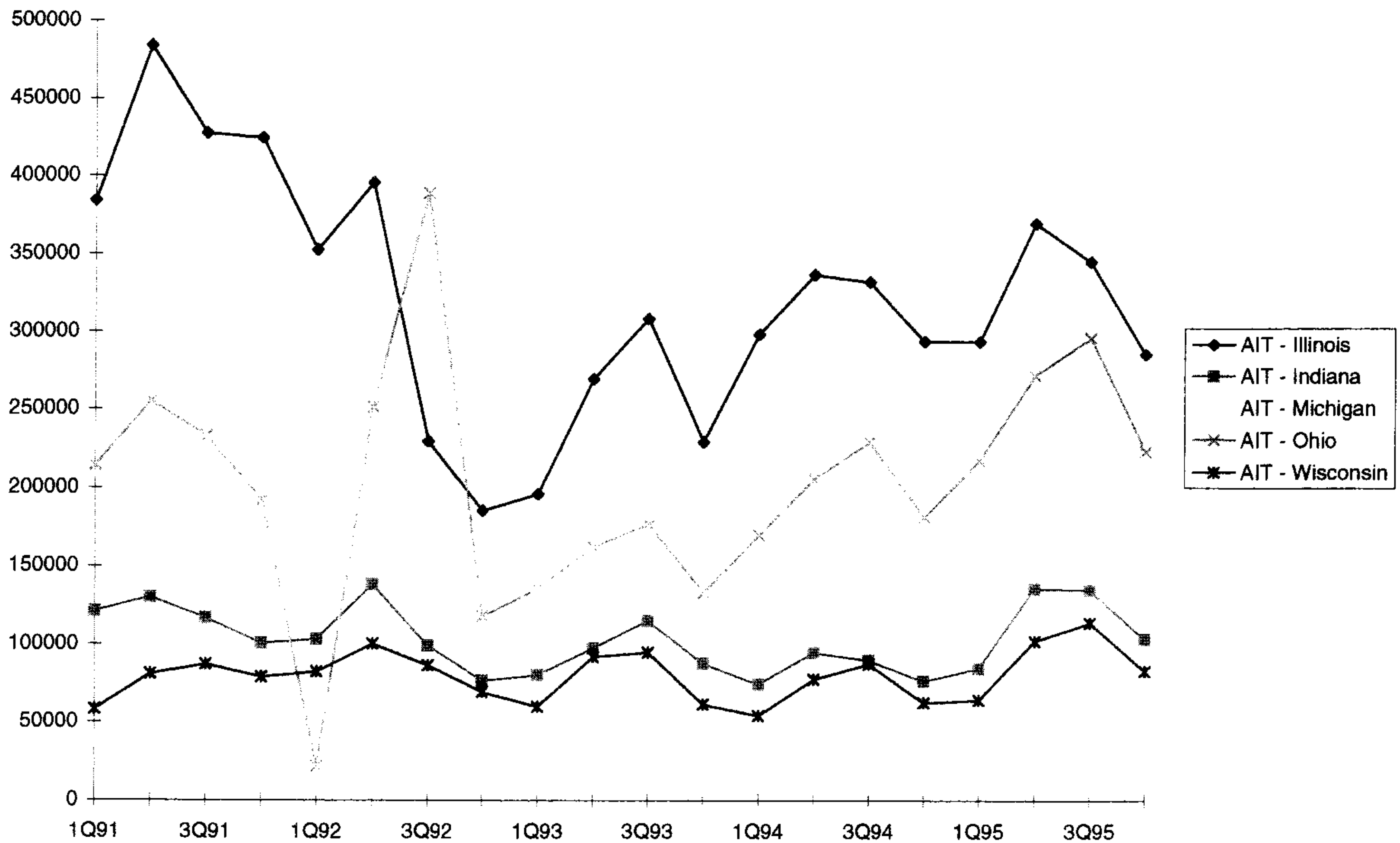
Source: Public Data Filed With FCC - ARMIS 43-05, Table II

Percent of Commitments Met for Total Installation Orders in GTE Region 1991-1995



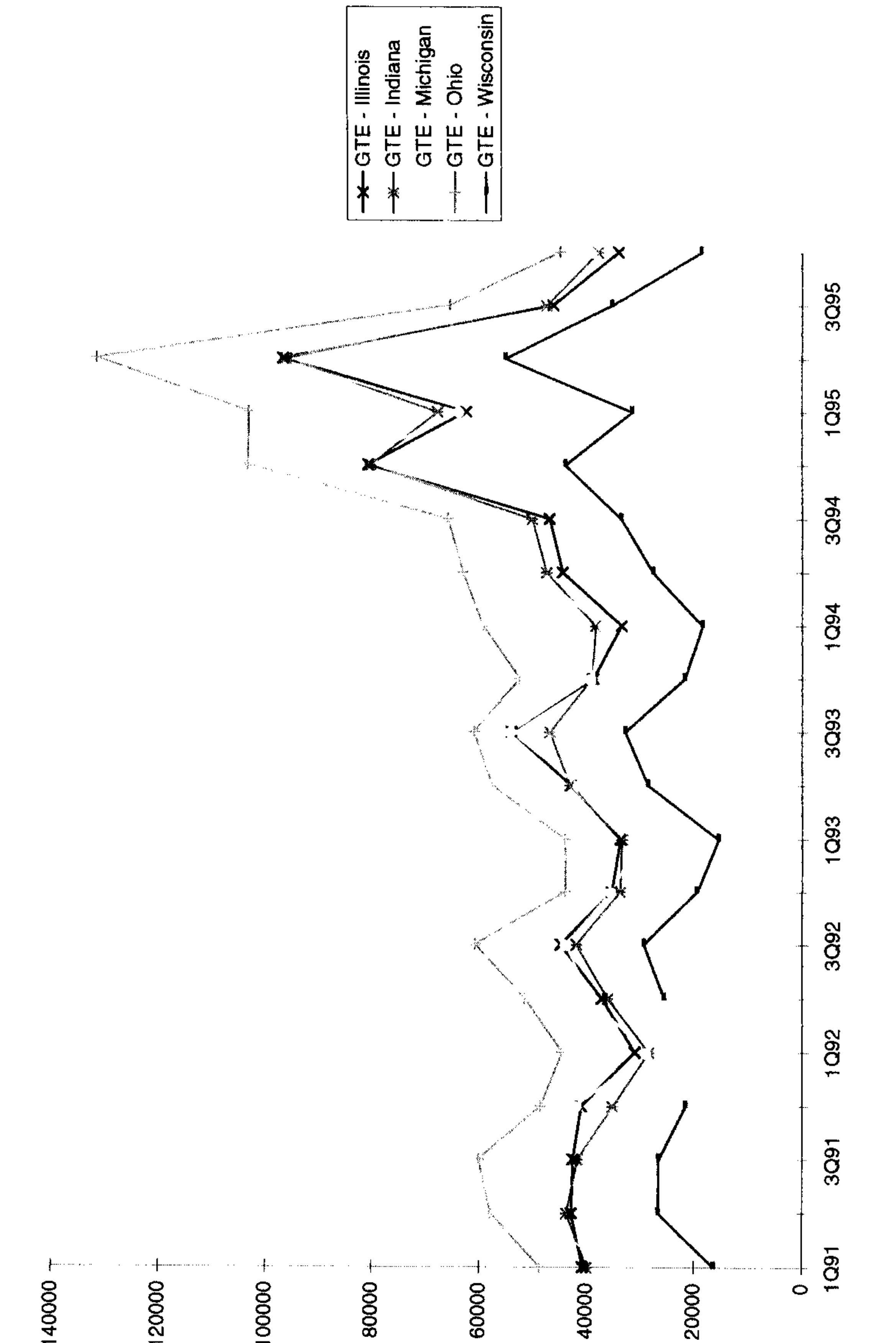
Source: Public Data Filed With FCC - ARMIS 43-05, Table II

Total Initial Trouble Reports in Ameritech Region 1991-1995



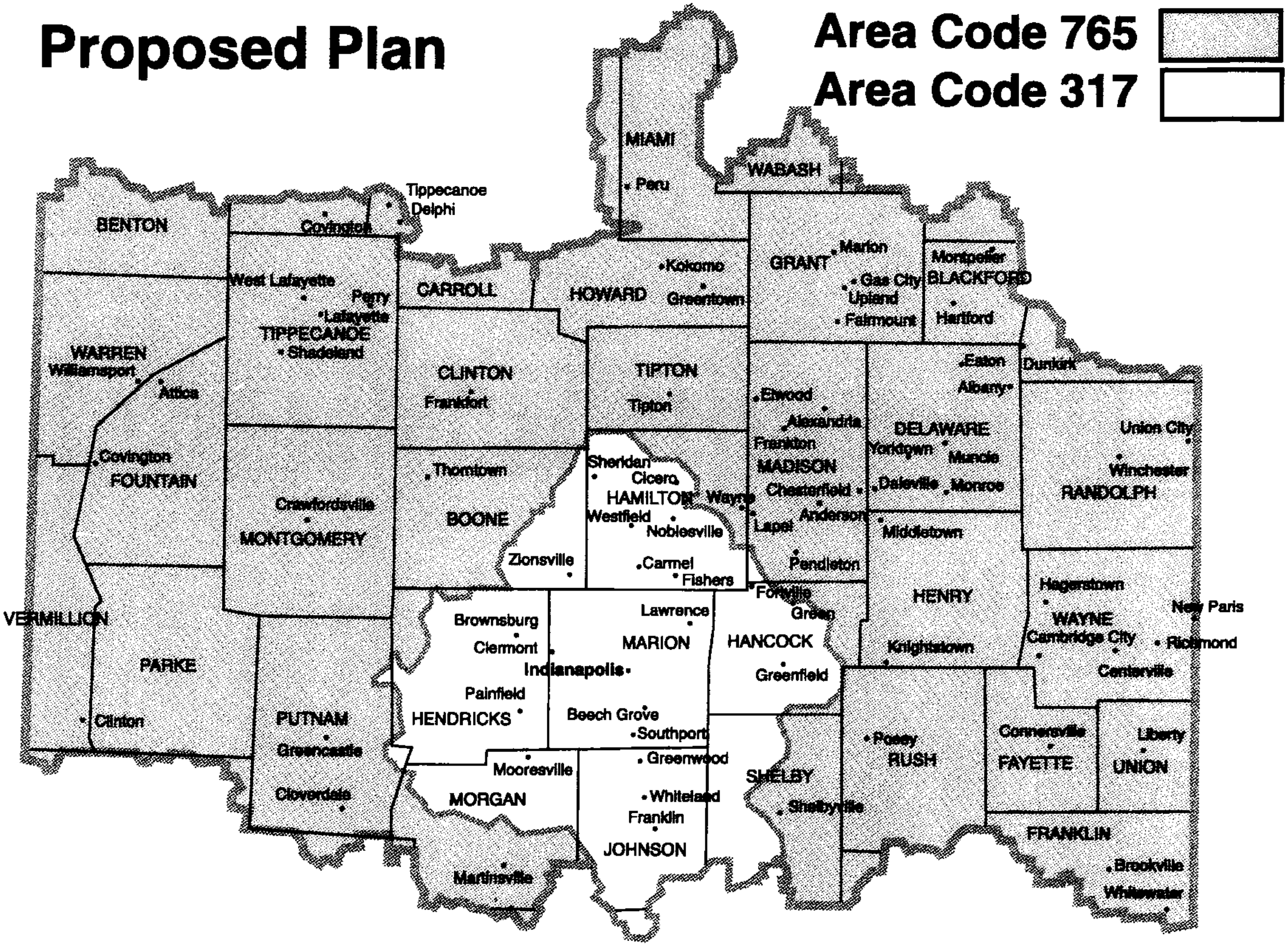
Source: Public Data Filed Witht FCC - ARMIS 43-05, Table II

Total Initial Trouble Reports in GTE Region 1991-1995

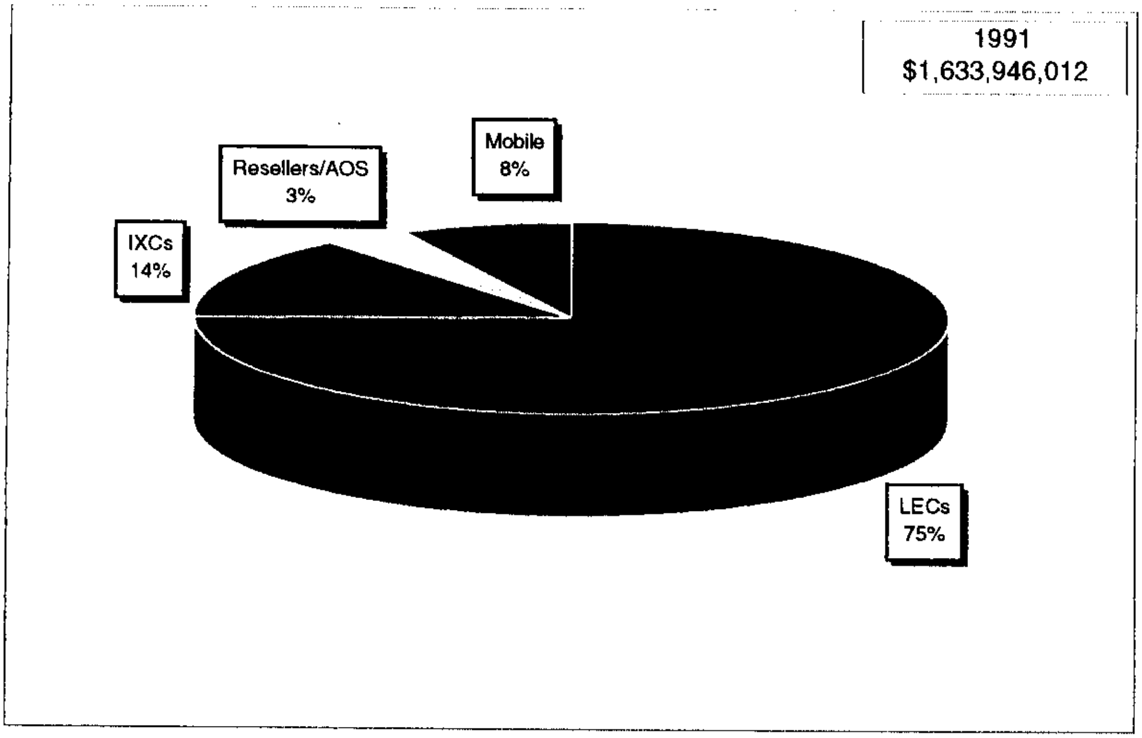


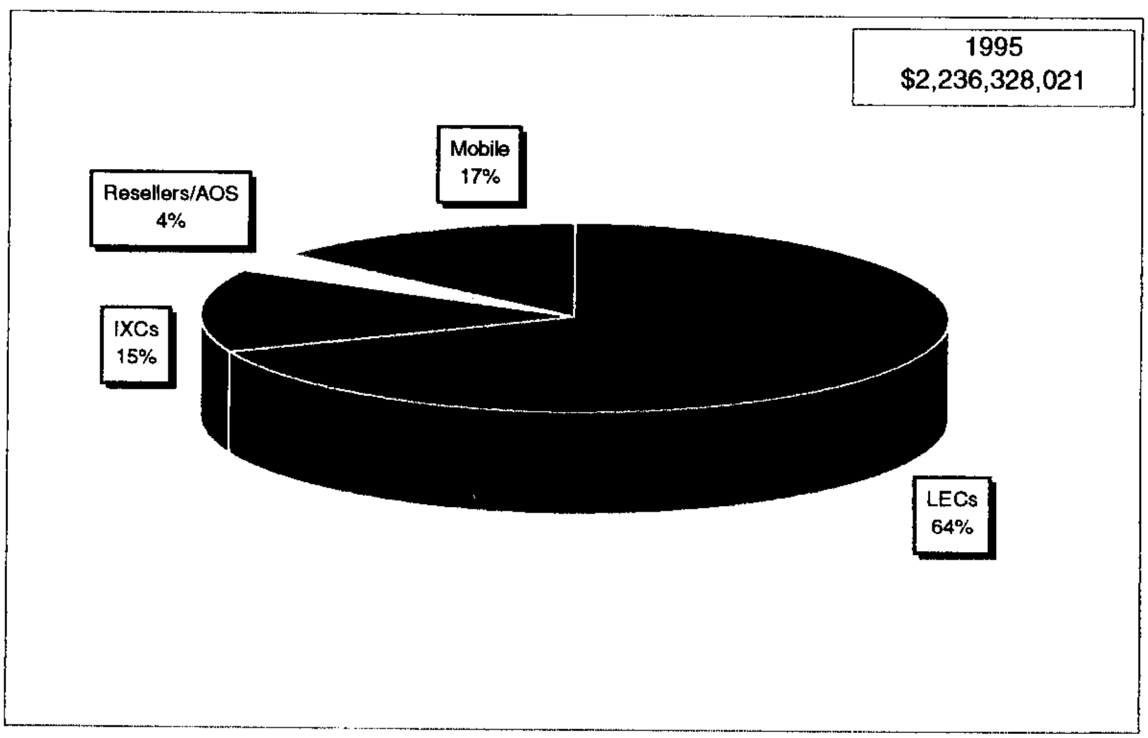
Source: Public Data Filed With FCC - ARMIS 43-05, Table II

Proposed Plan

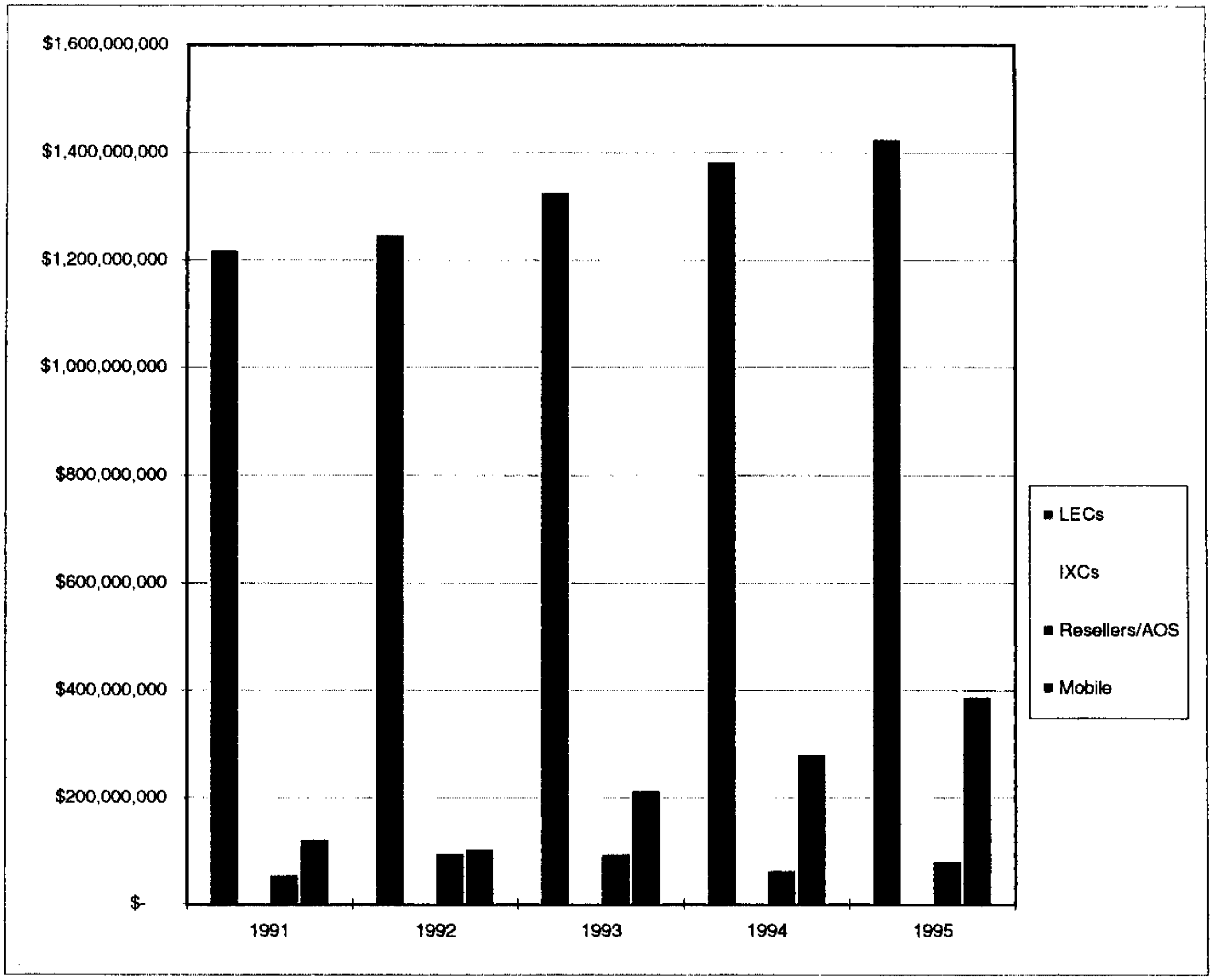


Intrastate Revenues 1991 & 1995





Intrastate Revenues
Industry Comparison



	1991	1992	1993	1994	1995
LECs	$ 1,222,193,259	$ 1,250,574,753	$ 1,328,673,356	$ 1,386,196,321	$ 1,428,747,275
IXCs	230,849,241	228,755,283	271,715,387	284,913,121	333,711,341
Resellers/AOS	56,687,888	98,881,707	97,113,783	64,596,726	83,132,509
Mobile	124,202,675	106,822,023	215,729,236	282,511,355	390,700,301
CAPs (1)	12,949	29,160	1,913,006	1,630,281	36,595
Total	$ 1,633,946,012	$ 1,685,062,926	$ 1,915,144,768	$ 2,019,847,804	$ 2,236,328,021

Source: Indiana Utility Regulatory Commission Fee Billing Reports

(1) Because the CAPs revenues comprise <1% of total intrastate revenues it was omitted from the graph.

TELECOMMUNICATIONS INTRA-STATE REVENUES

LECs	1991	1992	1993	1994	1995	COMPOUND ANNL RATE
AMERITECH CORP.	722,811,215	731,426,810	785,845,638	808,475,239	828,960,520	3.48%
BLOOMINGDALE HOME TEL. CO.	129,832	114,191	135,115	137,111	142,031	2.27%
CAMDEN TEL. CO.	634,669	699,762	705,909	899,859	700,499	2.50%
CENTRAL INDIANA TEL. CO.	1,098,742	1,130,476	1,208,904	1,239,812	2,418,462	21.80%
CINCINNATI BELL TEL. CO.	1,302,829	1,479,370	1,775,244	2,023,436	2,084,110	12.46%
CITIZENS TEL. CORP.	824,682	1,238,841	955,367	974,921	979,157	4.39%
CLAY COUNTY RURAL TEL.	4,136,685	4,550,354	4,907,790	4,735,364	5,023,313	4.97%
COMMUNIC. CORP. of IN.	3,904,601	6,101,673	4,629,812	4,702,933	5,106,620	6.94%
COMMUNIC. CORP. of S. IN.	831,704	1,263,637	995,944	1,060,464	1,115,303	7.61%
CONTEL of INDIANA, INC.	67,897,476	68,274,123	74,354,011	73,119,961	75,221,759	2.59%
CONTEL of the SOUTH, INC (1)	$3,466,220	$3,950,905	$3,493,495	3,429,365	3,586,639	0.86%
CRAIGVILLE TEL. CO.	347,309	530,340	399,100	379,882	368,265	1.48%
DAVIESS-MARTIN RURAL TEL. CO.	948,610	1,043,471	1,252,165	1,234,797	1,270,774	7.58%
FRONTIER COMM. of IN (2)	925,669	1,191,279	937,487	976,365	899,523	-0.71%
FRONTIER COMM. of THORNTOWN (3)	782,835	1,135,578	835,370	951,599	916,365	4.02%
GEETINGSVILLE TEL.	193,737	189,504	206,755	212,950	215,326	2.68%
GTE NORTH	300,905,767	307,475,139	316,741,702	339,646,770	350,953,117	3.92%
HANCOCK RURAL TEL. CO.	1,875,472	2,178,314	2,338,796	2,466,003	2,634,691	8.87%
HOME TEL. CO.	999,060	1,315,261	1,134,910	1,134,322	1,139,716	3.35%
HOME TEL. CO. of PITTSBORO	750,902	1,193,655	905,188	971,244	1,022,678	8.03%
LIGONIER TEL. CO.	958,407	1,493,346	1,642,652	1,241,229	1,229,044	6.42%
MERCHANTS & FARMERS TEL.	254,691	345,276	425,131	446,455	472,458	16.70%
MONON TEL. CO.	570,449	622,112	731,220	790,450	797,722	8.74%
MULBERRY COOP. TEL. CO. (5)	486,195	540,467	562,159	674,591	699,877	9.53%
NEW LISBON TEL. CO.	361,696	343,074	375,405	344,082	349,250	-0.87%
NEW PARIS TEL. CO.	807,067	875,981	890,998	1,113,933	1,035,040	6.42%
NORTHWESTERN IN. TEL. CO.	4,002,219	4,556,027	4,946,154	5,501,987	5,789,153	9.67%
ODON TEL. CO.	615,781	680,358	722,103	762,459	1,196,997	18.08%
PERRY-SPENCER RURAL COOP. (5)	1,688,954	2,108,825	2,200,646	2,302,388	2,762,866	13.09%
PULASKI-WHITE RURAL COOP.	613,627	941,133	664,408	757,364	784,820	6.34%
ROCHESTER TEL. CO.	2,060,277	3,018,827	2,454,443	3,877,000	2,602,913	6.02%
S&W TEL. CO.	160,266	202,812	152,411	162,055	180,328	2.99%
SMITHVILLE TEL. CO.	7,041,179	11,456,829	8,662,959	8,890,799	9,678,018	8.28%
S.EASTERN IN. RURAL TEL.	1,266,062	1,392,668	597,741	636,974	671,220	-14.67%
SUNMAN TEL. CO.	1,035,960	1,092,748	1,005,098	1,168,155	1,414,518	8.10%
SWAYZEE TEL. CO.	555,799	561,993	674,392	525,380	520,960	-1.61%
SWEETSER TEL. CO.	538,184	566,668	613,957	352,183	1,073,284	18.84%

TIPTON TEL. CO.	1,745,548	1,725,748	2,070,898	1,814,584	2,008,876	3.58%
TRI-COUNTY TEL. CO.	1,246,422	1,345,865	1,459,494	1,534,814	1,544,854	5.51%
UNITED TEL. CO of IN.	80,035,085	78,598,269	92,420,673	102,724,718	107,397,264	7.63%
WASHINGTON CTY. RURAL COOP	770,089	858,888	877,899	908,942	962,905	5.75%
WEST POINT TEL. CO.	249,680	357,669	385,230	374,682	276,263	2.56%
YEOMAN TEL. CO.	361,606	406,487	378,583	518,700	539,777	10.53%
LECs TOTAL	1,222,193,259	1,250,574,753	1,328,673,356	1,386,196,321	1,428,747,275	3.98%

INTEREXCHANGE CARRIERS	1991	1992	1993	1994	1995	0.05%
AT&T COMMUNICATIONS of IN.	$173,005,231	$183,015,440	$193,127,256	$201,262,606	$227,072,836	7.04%
LCI INTERNATIONAL TELECOM CORP.	3,866,477	5,343,578	8,307,307	8,396,732	9,617,509	25.58%
MCI TELECOMMUNICATIONS CORP.	35,906,772	17,854,150	46,532,865	50,753,440	68,512,763	17.53%
MIDWEST FIBERNET INC.	202,104	433,467	2,160,348	2,592,418	823,975	42.10%
SPRINT COMMUNICATIONS CO. LTD.	17,868,657	22,028,058	21,516,402	21,250,468	23,690,890	7.31%
WORLDCOM NETWORK SERVICES, INC. (4)	0	80,590	71,209	657,457	3,993,368	267.30%
IXCs TOTAL	$230,849,241	$228,755,283	$271,715,387	$284,913,121	$333,711,341	9.65%

COMPETITIVE ACCESS PROVIDER	1991	1992	1993	1994	1995	0.05%
INDIANA DIGITAL ACCESS (6)	12,949	29,160	1,913,006	1,630,281	36,595	29.66%

RESELLER/AOS TOTAL (7)	$56,687,888	$98,881,707	$97,113,783	$64,596,726	$83,132,509	10.04%
MOBILE CARRIERS TOTAL (7)	$124,202,675	$106,822,023	$215,729,236	$282,511,355	$390,700,301	33.18%
TOTAL ALL TELCO OPERATIONS (7)	$1,633,946,012	$1,685,062,926	$1,915,144,768	$2,019,847,804	$2,236,328,021	8.16%

(1) Formerly Alltel Indiana, Inc.
(2) Formerly Citizens Telephone of Fairmount
(3) Formerly Thorntown Telephone
(4) Formerly Wiltel, Inc.
(5) 1995 figure is estimated
(6) In the IURC's 1993 and 1994 Reports, Indiana Digital Access was classified as an Interexchange Carrier.
(7) 1995 totals contain estimates

RATE OF RETURN DATA - NINE LARGEST TELEPHONE COMPANIES

COMPANY	1991	1992	1993	1994	1995
AMERITECH (1)					
Rate Base	$1,290,687,743	$1,272,522,399	$1,688,124,988	(3)	(3)
Net Operating Income	$141,968,400	$125,921,503	$194,598,973	(3)	(3)
Rate of Return	11.00%	9.90%	11.53%	(3)	(3)
CONTEL of the SOUTH (2)					
Rate Base	$9,387,152	$10,043,172	$10,654,000	$10,376,000	$10,721,000
Net Operating Income	$1,149,903	$1,913,501	$666,000	$764,000	$948,000
Rate of Return	12.25%	19.05%	6.25%	7.36%	8.84%
COMMUNIC. CORP. of IN.					
Rate Base	$10,143,305	$10,422,503	$14,279,301	$16,930,296	$16,706,225
Net Operating Income	$1,489,190	$1,592,790	$1,873,288	$1,926,020	$2,068,928
Rate of Return	14.68%	15.28%	13.12%	11.38%	12.38%
CONTEL of INDIANA INC.					
Rate Base	$114,868,000	$112,788,000	$145,141,000	$143,215,000	$136,528,000
Net Operating Income	$12,848,000	$10,933,000	$23,712,000	$28,540,000	$23,426,000
Rate of Return	11.19%	9.69%	16.34%	19.93%	17.16%
GTE NORTH					
Rate Base	$578,336,000	$601,965,000	$803,277,000	$813,074,000	$806,403,000
Net Operating Income	$67,542,000	$60,565,000	$76,324,000	$97,243,000	$89,257,000
Rate of Return	11.68%	10.06%	9.50%	11.96%	11.07%
NORTHWESTERN IN. TEL. CO.					
Rate Base	$8,218,660	$9,549,986	$9,942,005	$10,426,893	$11,002,655
Net Operating Income	$776,474	$1,081,833	$1,646,437	$1,145,899	$1,370,012
Rate of Return	9.45%	11.33%	16.56%	10.99%	12.45%
ROCHESTER TEL. CO.					
Rate Base	$4,547,607	$4,675,262	$4,803,370	$4,894,061	$5,177,051
Net Operating Income	$1,011,887	$915,047	$1,118,081	$1,080,310	$1,157,932
Rate of Return	22.25%	19.57%	23.28%	22.07%	22.37%
SMITHVILLE TEL. CO.					
Rate Base	$23,307,355	$23,002,764	$23,679,683	$24,872,821	$25,592,751
Net Operating Income	$2,228,023	$3,010,982	$3,000,606	$3,542,036	$3,854,736
Rate of Return	9.56%	13.09%	12.67%	14.24%	15.06%
UNITED TEL. CO. of IN.					
Rate Base	$139,217,340	$139,287,087	$175,884,567	$174,189,403	$169,087,324
Net Operating Income	$14,059,751	$12,936,394	$17,291,563	$17,564,404	$24,967,787
Rate of Return	10.10%	9.29%	9.83%	10.08%	14.77%

(1) formerly Indiana Bell Tel. Co.
(2) formerly Alltel Indiana, Inc.
(3) Ameritech is not required to file this information based on the order in Cause No. 39705 dated June 30, 1994, commonly referred to as "Opportunity Indiana".

1995 LEC TOTAL COMPANY INCOME STATEMENT DATA

COMPANY	OP. REVENUES	DEPR. & AMORT.	INCOME TAXES	OTHER TAXES	OP. EXPENSES
AMERITECH CORP.	1,199,028,000	203,565,000	120,095,000	42,839,000	600,463,000
BLOOMINGDALE HOME TEL. CO.	566,172	88,546	178,155	24,393	393,289
CAMDEN TELEPHONE CO.	1212098	134,307	239,379	110,166	496,503
CENTRAL INDIANA TEL. CO.	2,615,865	599,082	247,046	-	1,107,269
CINCINNATI BELL TEL. CO.	617,131,000	108,089,000	7,792,000	54,711,000	398,914,000
CITIZENS TEL. CORP.	1,660,056	204,813	320,350	39,029	589,518
CLAY COUNTY RURAL TEL.	7,462,000	1,360,000	237,000.00	-	2,131,000
COMMUNIC. CORP. of IN.	8,044,896	1,583,369	1,564,317	214,035	2,831,833
COMMUNIC. CORP. of S. IN.	1,822,563	284,169	281,427	883	840,101
CONTEL of INDIANA INC.	106,083,000	21,122,000	9,363,000	3,688,000	48,268,000
CONTEL of THE SOUTH (1)	5,394,000	1,162,000	661,000	224,000	2,193,000
CRAIGVILLE TELEPHONE CO.	651,910	125,009	82,174		305,999
FRONTIER COMM. of IN. (2)	1,507,056	137,309	248,180	74786	688,334
FRONTIER COMM. of THORNTOWN (	1,506,255	156,565	193,833	47959	808,127
GTE NORTH	521,292,000	101,625,000	33,638,000	20,706,000	283,213,000
GEETINGSVILLE TEL.	390,966	54,850	33,679	10,569	164,210
HOME TEL. CO. of PITTSBORO	1,608,811	358,964	172,231	50,308	702,175
HOME TEL. CO.	1,804,446	476,458	229,964	30,167	703,421
LIGONIER TEL. CO.	2,138,480	334,808	272,161	56,311	791,571
MERCHANTS & FARMERS TEL.	794,493	63,709	154,421	8,809	285,405
MONON TEL. CO.	1,391,378	192,032	218,430		691,687
MULBERRY COOP. TEL. CO. *	981,284	171,224	148,950	22,462	363,882
NEW LISBON TEL. CO.	682,594	126,795	71,790	14,063	328,582
NEW PARIS TEL. CO.	1,941,908	327,347	117,167	52,841	1,080,792
NORTHWESTERN IN. TEL. CO.	10,225,556	2,169,930	1,054,226		6,054,228
ODON TEL. CO.	1,281,951	195,823	157,125	20,946	587,635
ROCHESTER TELEPHONE	4,278,661	603,719	795,138	38,615	1,721,662
SMITHVILLE TEL. CO.	15,796,000	3,440,000	1,761,000	376,000	6,364,000
SUNMAN TEL. CO.	2,865,155	468,970	388,106	50,721	1,218,574
SWAYZEE TEL. CO.	880,805	68,764	30,144	41,234	586,463
SWEETSER TEL. CO.	1,178,887	117,604	29,183	22,336	617,316
TIPTON TEL. CO.	3,496,971	441,466	454,112	85,924	1,717,062
TRI-COUNTY TEL. CO.	2,444,143	449,684	166,628	80,382	447,088
UNITED TEL. CO. of IN.	166,593,000	31,103,000	10,601,000	5,897,000	60,320,000
WEST POINT TEL. CO.	524,112	86,329	54,035	8,436	261,014
YEOMAN TEL. CO.	746,789	127,152	93,477	22,038	393,975
TOTALS	2,698,023,261	481,614,797	192,143,828	129,568,413	1,428,643,715

* 1995 Data Not Available

(1) Formerly ALLTEL Indiana, Inc.

(2) Formerly Citizens Telephone of Fairmount

(3) Formerly Thorntown Telephone Co.

1994 LEC TOTAL COMPANY INCOME STATEMENT DATA

COMPANY	OP. REVENUES	DEPR. & AMORT.	INCOME TAXES	OTHER TAXES	OP. EXPENSES
ALLTELL INDIANA, INC. (1)	$ 5,218,000	$ 1,197,000	$ 320,000	$ 300,000	$ 2,581,000
BLOOMINGDALE HOME TEL. CO. *	436,619	67,421	27,160	29,016	275,982
CAMDEN TEL. CO.	1,345,867	137,475	268,554	24,987	446,597
CENTRAL INDIANA TEL. CO.	2,201,227	315,006	215,924	20,188	1,092,649
CINCINNATI BELL TEL. CO.	597,386,000	113,941,000	21,218,000	54,653,000	337,454,000
CITIZENS TEL. CO.	1,639,642	172,014	238,715	56,899	613,948
CITIZENS TEL. CORP.	1,533,955	189,278	288,617	27,030	586,345
CLAY COUNTY RURAL TEL.	7,084,000	1,324,000	NA	279,000	1,983,000
COMMUNIC. CORP. of IN.	7,350,039	1,390,758	867,807	548,353	2,621,481
COMMUNIC. CORP. of S. IN.	1,643,669	229,381	198,172	51,361	799,841
CONTEL of INDIANA INC.	110,103,000	20,053,000	13,291,000	3,314,000	43,944,000
CRAIGVILLE TEL. CO.	638,700	116,814	18,640	13,012	287,297
GTE NORTH	489,803,000	99,729,000	37,375,000	19,241,000	244,569,000
GEETINGSVILLE TEL.	357,776	53,111	35,767	10,624	145,263
HOME TEL. CO. of PITTSBORO	1,524,770	213,819	260,066	52,543	596,447
HOME TEL. CO.	1,652,812	430,814	221,608	25,522	633,504
INDIANA BELL TEL. CO.	1,155,605,000	197,845,000	30,956,000	46,050,000	682,066,000
LIGONIER TEL. CO.	2,077,543	309,162	344,336	52,414	853,563
MERCHANTS & FARMERS TEL.	735,447	70,948	136,849	11,746	241,253
MONON TEL. CO.	1,360,197	162,297	205,687	33,590	685,936
MULBERRY COOP. TEL. CO.	981,284	171,224	148,950	22,462	363,882
NEW LISBON TEL. CO.	649,242	125,158	72,232	15,006	308,757
NEW PARIS TEL. CO.	2,060,000	360,000	218,000	41,000	1,067,000
NORTHWESTERN IN. TEL. CO.	10,912,445	1,400,363	1,226,007	211,433	6,928,743
ODON TEL. CO.	1,223,994	206,548	109,846	14,857	647,008
ROCHESTER TEL. CO.	3,877,000	776,000	678,000	73,000	1,270,000
SMITHVILLE TEL. CO.	14,731,000	3,540,000	1,670,000	384,000	5,597,000
SUNMAN TEL. CO.	2,349,000	535,000	33,000	40,000	1,157,000
SWAYZEE TEL. CO.	804,075	72,575	55,274	16,680	502,588
SWEETSER TEL. CO.	1,131,286	118,568	129,145	17,559	643,856
THORNTOWN TEL. CO.	1,334,331	235,812	174,709	32,465	663,580
TIPTON TEL. CO.	3,189,282	426,081	465,976	89,768	1,347,836
TRI-COUNTY TEL. CO.	2,353,962	429,017	110,067	74,316	1,278,259
UNITED TEL. CO. of IN.	157,277,000	30,470,000	7,711,000	5,809,000	93,085,000
WEST POINT TEL. CO.	471,000	81,000	78,000	8,000	227,000
YEOMAN TEL. CO.	705,000	124,000	138,000	33,000	351,000
TOTALS	$2,593,747,164	$477,018,644	$119,506,108	$131,676,831	$1,437,915,615

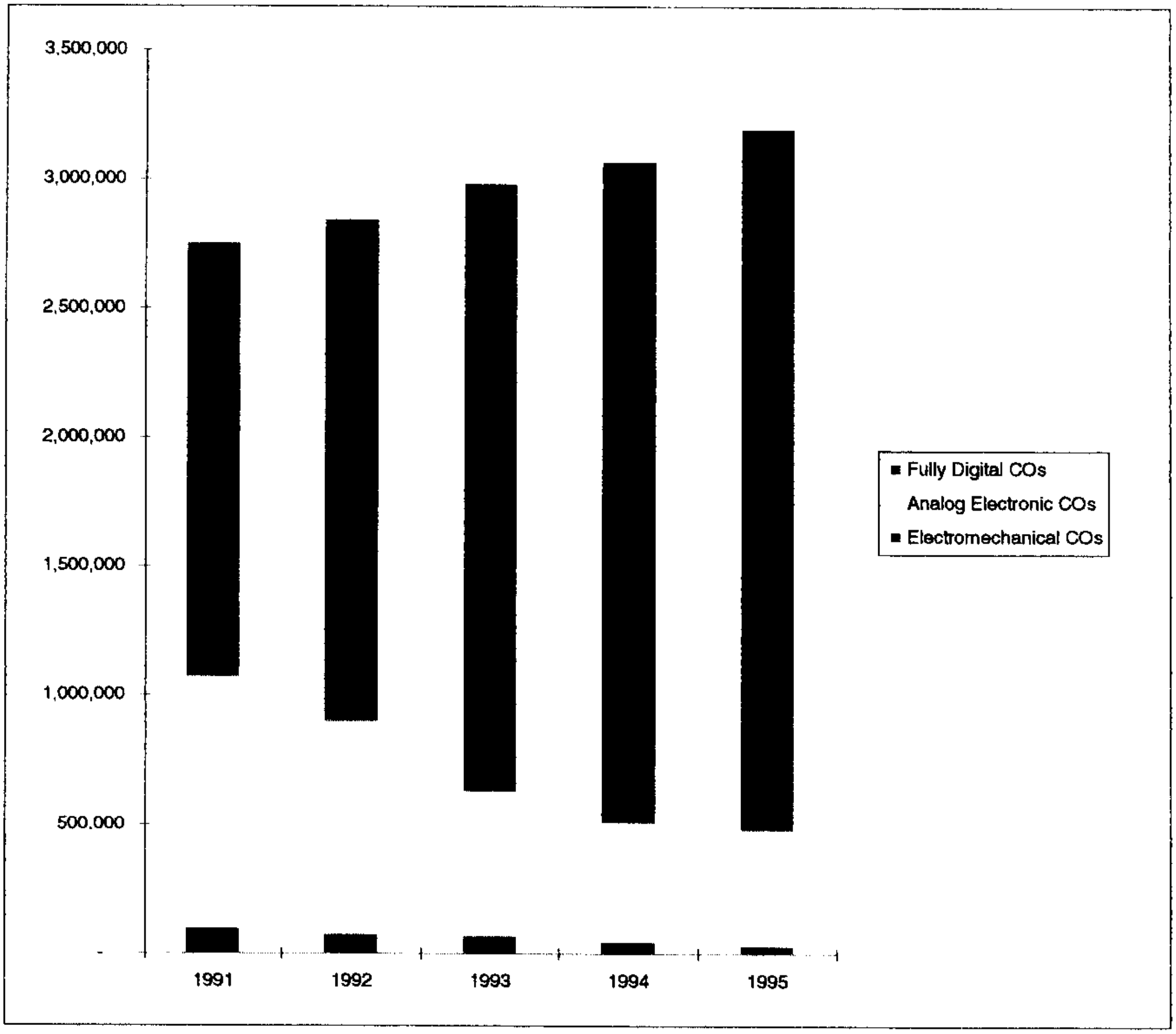
* 1994 Data Not Available

(1) DBA GTE Systems of Indiana, Inc.

TOTAL INCOME STATEMENT DATA - FOUR LARGEST LECs

	1991	1992	1993	1994	1995	COMPOUND ANNL RATE
CONTEL of INDIANA INC.						
Operating Revenues	$105,591,995	$100,478,353	$106,852,000	$110,103,000	$106,083,000	0.12%
Depreciation & Amortization	20,378,631	21,007,130	20,501,000	20,053,000	21,122,000	0.90%
Income Taxes	6,414,012	5,464,059	10,578,000	13,291,000	9,363,000	9.92%
Other Taxes	1,708,861	2,802,540	3,149,000	3,314,000	3,688,000	21.21%
Other Operating Expenses	59,366,485	56,813,010	48,585,000	43,944,000	48,268,000	-5.04%
GTE NORTH						
Operating Revenues	$460,226,000	$459,636,523	$451,348,000	$489,803,000	$521,292,000	3.16%
Depreciation & Amortization	101,689,000	93,227,862	92,032,000	99,729,000	101,625,000	-0.02%
Income Taxes	29,798,000	31,656,139	25,524,000	37,375,000	33,638,000	3.08%
Other Taxes	16,769,000	16,070,092	17,902,000	19,241,000	20,706,000	5.41%
Other Operating Expenses	215,333,000	242,265,473	246,731,000	244,569,000	283,213,000	7.09%
AMERITECH						
Operating Revenues	$1,033,897,000	$1,046,824,000	$1,116,485,000	$1,155,605,000	$1,199,028,000	3.77%
Depreciation & Amortization	201,944,000	204,002,000	199,141,000	197,845,000	203,565,000	0.20%
Income Taxes	72,093,000	70,562,000	90,802,000	30,956,000	120,095,000	13.61%
Other Taxes	35,178,000	39,194,000	44,726,000	46,050,000	42,839,000	5.05%
Other Operating Expenses	540,890,000	553,745,000	579,265,000	682,066,000	600,463,000	2.65%
UNITED TEL. CO. of IN.						
Operating Revenues	$133,274,000	$142,115,614	$150,374,000	$157,277,000	$166,593,000	5.74%
Depreciation & Amortization	31,365,000	31,383,625	28,895,000	30,470,000	31,103,000	-0.21%
Income Taxes	8,060,000	9,726,407	7,369,000	7,711,000	10,601,000	7.09%
Other Taxes	4,594,000	5,024,678	5,655,000	5,809,000	5,897,000	6.44%
Other Operating Expenses	40,976,000	77,461,510	90,455,000	93,085,000	60,320,000	10.15%
COMPANY TOTALS						
Operating Revenues	$1,732,988,995	$1,749,054,490	$1,825,059,000	$1,912,788,000	$1,992,996,000	3.56%
Depreciation & Amortization	355,376,631	349,620,617	340,569,000	348,097,000	357,415,000	0.14%
Income Taxes	116,365,012	117,408,605	134,273,000	89,333,000	173,697,000	10.53%
Other Taxes	58,249,861	63,091,310	71,432,000	74,414,000	73,130,000	5.85%
Other Operating Expenses	856,565,485	930,284,993	965,036,000	1,063,664,000	992,264,000	3.74%

Total Switched Access Lines by Type of Central Office Switch



	1991	1992	1993	1994	1995
Electromechanical COs	103,263	79,862	73,832	51,715	35,922
Analog Electronic COs	966,732	819,035	555,002	456,080	441,379
Fully Digital COs	1,689,811	1,952,762	2,360,269	2,566,387	2,724,452
Tot. Switched Acc. Lines	2,759,806	2,851,659	2,989,103	3,074,182	3,201,753

Note: Excludes Daviess-Martin, Mulberry, and Washington

TOTAL SWITCHED ACCESS LINES BY TYPE OF CENTRAL OFFICE SWITCH AND EQUAL ACCESS

COMPANY	ELECTRO MECHANCIAL LINES	ELECTRO MECHANCIAL PERCENT	ANALOG ELECTRONIC LINES	ANALOG ELECTRONIC PERCENT	FULLY DIGITAL LINES	FULLY DIGITAL PERCENT	EQUAL ACCESS LINES	EQUAL ACCESS PERCENT
AMERITECH CORP.	-	0.00%	394,583	19.56%	1,623,010	80.44%	2,017,593	100.00%
BLOOMINGDALE HOME TEL. CO.	-	0.00%	-	0.00%	577	100.00%	577	100.00%
CAMDEN TEL. CO.	-	0.00%	-	0.00%	1,643	100.00%	1,643	100.00%
CENTRAL INDIANA TEL. CO.	-	0.00%	-	0.00%	3,119	100.00%	3,119	100.00%
CINCINNATI BELL TEL. CO.	-	0.00%	-	0.00%	4,319	100.00%	4,319	100.00%
CITIZENS TEL. CORP.	-	0.00%	-	0.00%	2,280	100.00%	2,280	100.00%
CLAY COUNTY RURAL TEL.	-	0.00%	-	0.00%	10,164	100.00%	10,164	100.00%
COMMUNIC. CORP. of IN.	-	0.00%	-	0.00%	9,265	100.00%	9,265	100.00%
COMMUNIC. CORP. of S. IN.	-	0.00%	-	0.00%	1,921	100.00%	1,921	100.00%
CONTEL of INDIANA INC	4,612	2.79%	-	0.00%	160,801	97.21%	165,413	100.00%
CONTEL of THE SOUTH (1)	842	8.87%	-	0.00%	8,649	91.13%	9,491	100.00%
CRAIGVILLE TEL. CO	-	0.00%	-	0.00%	836	100.00%	836	100.00%
DAVIESS-MARTIN RURAL (2)							-	
FRONTIER COMM. of IN(3)	-	0.00%	-	0.00%	2,381	100.00%	2,381	100.00%
FRONTIER COMM. of THORNTOWN (4)	-	0.00%	-	0.00%	2,420	100.00%	2,420	100.00%
GEETINGSVILLE TEL	-	0.00%	-	0.00%	461	100.00%	461	100.00%
GTE NORTH	30,468	4.53%	45,585	6.78%	596,349	88.69%	628,345	93.45%
HANCOCK RURAL	-	0.00%	-	0.00%	5,759	100.00%	5,759	100.00%
HOME TEL. CO	-	0.00%	-	0.00%	2,107	100.00%	2,107	100.00%
HOME TELEPHONE of PITTSBORO	-	0.00%	-	0.00%	1,971	100.00%	1,971	100.00%
LIGONIER TEL. CO	-	0.00%	-	0.00%	2,493	100.00%	2,493	100.00%
MERCHANTS & FARMERS TEL	-	0.00%	-	0.00%	531	100.00%	531	100.00%
MONON TEL. CO	-	0.00%	-	0.00%	1,654	100.00%	1,654	100.00%
MULBERRY (2)							-	
NEW LISBON	-	0.00%	-	0.00%	788	100.00%	788	100.00%
NEW PARIS TEL. CO.	-	0.00%	-	0.00%	1,868	100.00%	1,868	100.00%
NORTHWESTERN IN. TEL. CO.	-	0.00%	-	0.00%	1,799	100.00%	1,799	100.00%
ODON TEL. CO	-	0.00%	-	0.00%	1,615	100.00%	1,615	100.00%
PERRY-SPENCER	-	0.00%	-	0.00%	4,811	100.00%	4,811	100.00%
PULASKI-WHITE	-	0.00%	-	0.00%	1,817	100.00%	1,817	100.00%
ROCHESTER TEL. CO	-	0.00%	-	0.00%	6,926	100.00%	6,926	100.00%
S & W	-	0.00%	-	0.00%	451	100.00%	440	97.56%
S.EASTERN IN. RURAL TEL	-	0.00%	-	0.00%	3,903	100.00%	3,903	100.00%
SMITHVILLE TEL. CO	-	0.00%	-	0.00%	27,174	100.00%	27,174	100.00%
SUNMAN TEL. CO	-	0.00%	-	0.00%	3,828	100.00%	3,828	100.00%
SWAYZEE TEL. CO	-	0.00%	-	0.00%	1,042	100.00%	1,042	100.00%
SWEETSER TEL. CO	-	0.00%	-	0.00%	1,566	100.00%	1,566	100.00%
TIPTON TEL. CO.	-	0.00%	-	0.00%	4,564	100.00%	4,564	100.00%
TRI-COUNTY TEL. CO.	-	0.00%	-	0.00%	3,077	100.00%	3,077	100.00%
UNITED TEL. CO. of IN	-	0.00%	-	0.00%	215,852	100.00%	215,852	100.00%
WASHINGTON CO. (2)							-	
WEST POINT TEL. CO.	-	0.00%	-	0.00%	661	100.00%	661	100.00%
YEOMAN	-	0.00%	1211	100.00%	-	0.00%	1,211	100.00%
TOTALS	35,922	1.12%	441,379	13.79%	2,724,452	85.09%	3,157,685	98.62%

(1) Formerly ALLTEL
(2) Did not respond to data request.
(3) Formerly Citizens Telephone of Fairmont
(4) Formerly Thorntown Telephone